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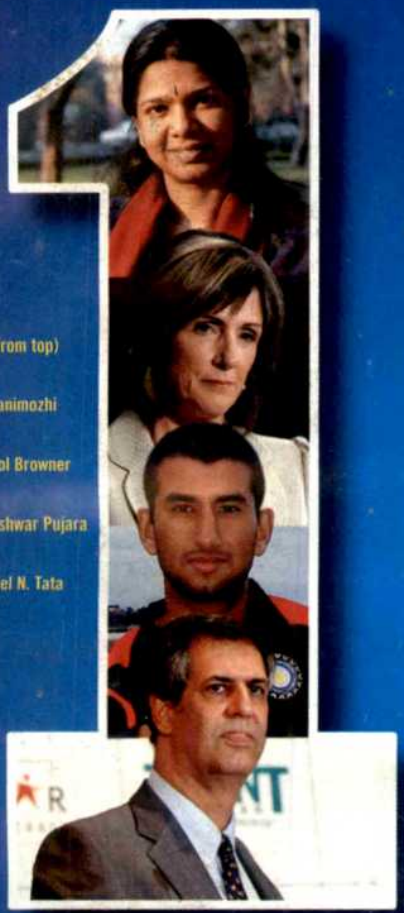


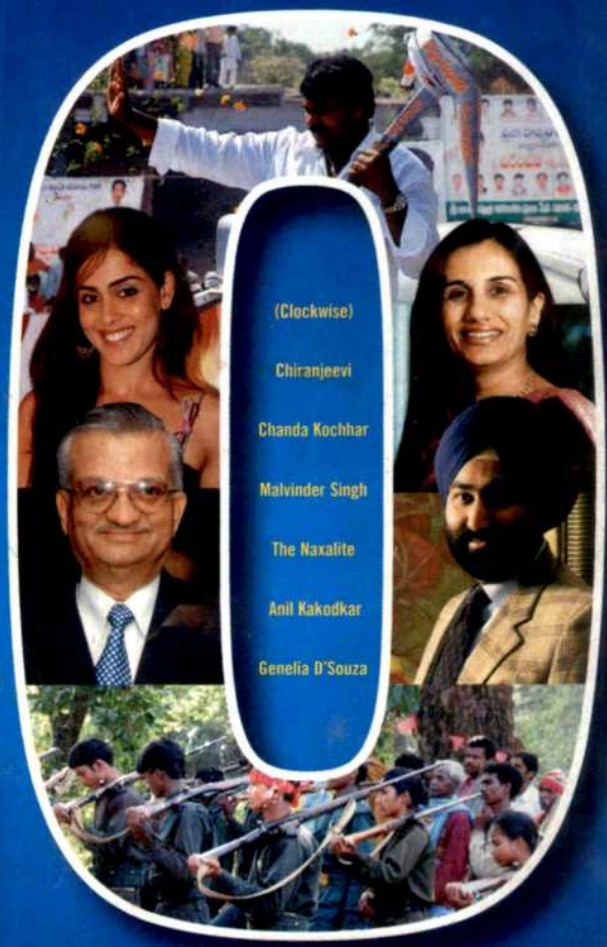
(From top)

Kanimozhi

Carol Browner

Cheteshwar Pujara

Noel N. Tata



(Clockwise)

Chiranjeevi

Chanda Kochhar

Malvinder Singh

The Naxalite

Anil Kakodkar

Genelia D'Souza

PEOPLE TO WATCH IN 2009

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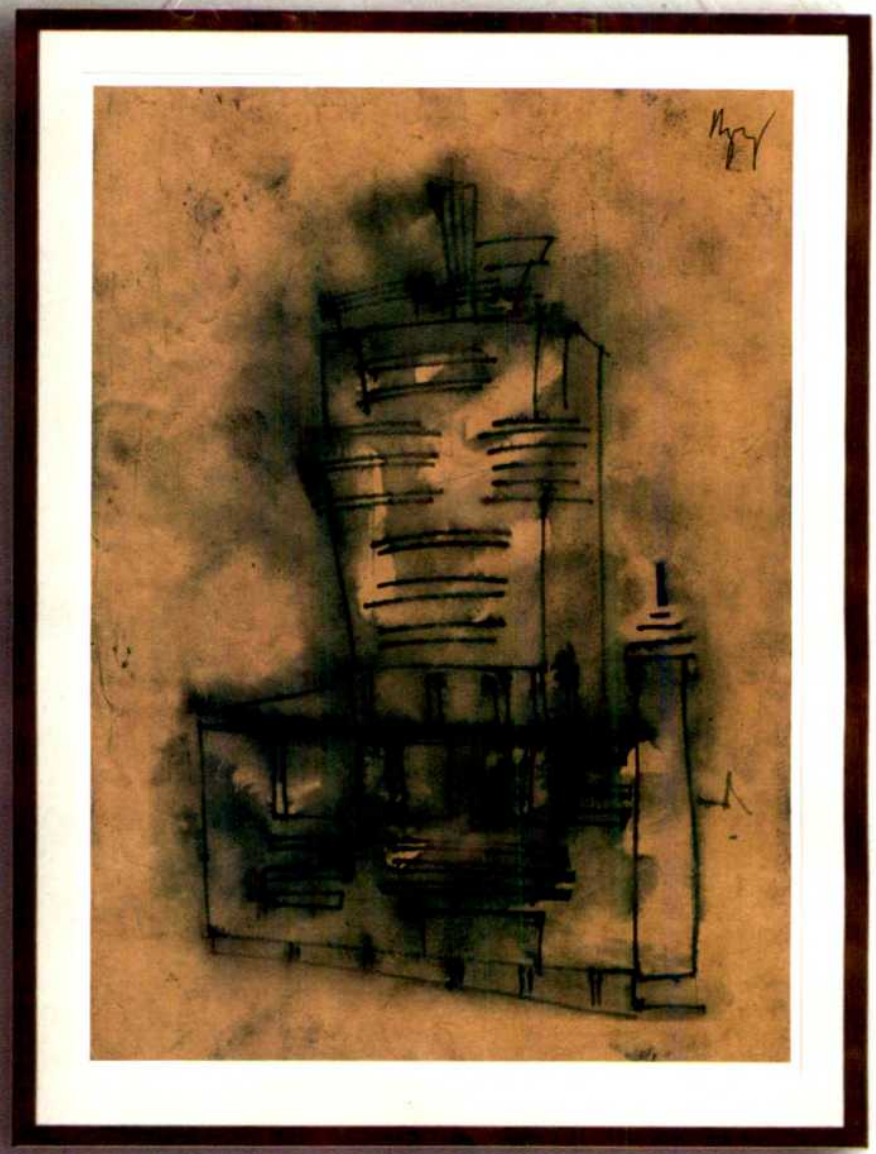

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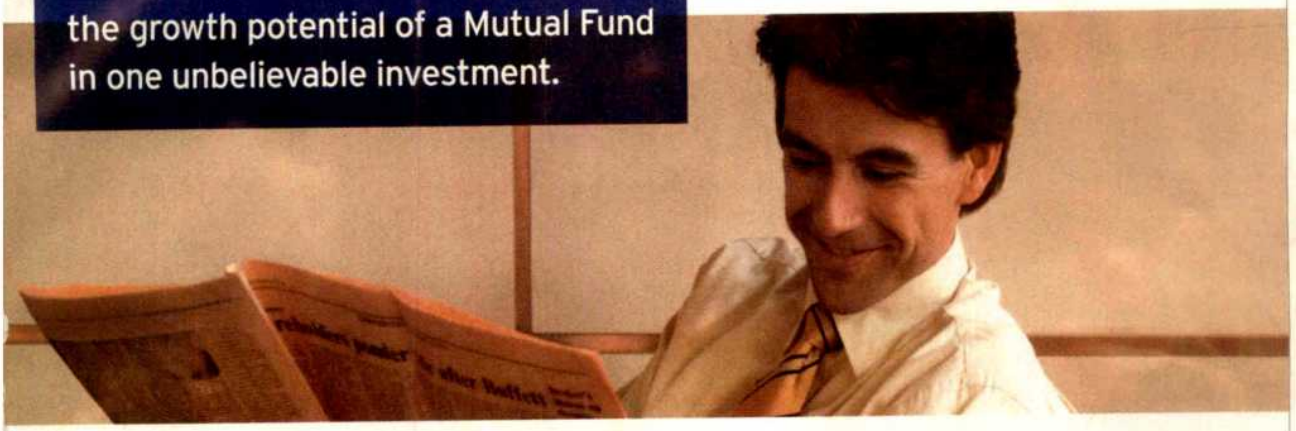

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Agents Of Change

WITH A US PRESIDENT of messianic promise and a new global financial system on the anvil, the next year is certain to be a watershed. Yet, national attention is fixated on the same old personalities, ideas and mantras. Ask anyone who the 10 people to watch in 2009 will be and they will list the usual suspects: Mayawati, Rahul Gandhi, the Ambanis, *et al.*

That's why *BW* has chosen to identify 10 people we believe will achieve new prominence and rise to join the rolls of India's lead actors in the new year. Some are well known, some almost anonymous; their backgrounds are diverse and their missions varied. But the moves we believe these people will make in 2009 will create new waves of influence in their fields.

The importance of recognising such emerging stars is that they impel a new national dynamic. In a country that exalts tradition, old ways and old men, accommodation is slowly being made of the unconventional, the new and the young. Six decades after Independence, a young India — with half its population under 25 — is on the cusp of a new freedom. The inherited fears and prejudices that once barricaded this nation from its own potential are fading under the glow of a generation seized with new possibilities. The people on this list are only the best examples of this new, can-do generation. All across the country, young leaders, idols and champions are rising to pursue ambitions that their predecessors once shied away from.

It is a heady but delicate time. When new aspirations are met, and, say, a woman finally gets to head India's largest private bank, it inspires and invigorates the nation. But when hopes are ignored, or suppressed, they bleed into anger, as exemplified by the growing Naxalite movement. Both phenomenons are occurring in India. But it is essential not to allow the battle with unyielding old practices, principles and people to keep us from conceiving — and pursuing — a new vision of India.

This is what the people on this list are doing — simply pressing ahead with their vision. That is why they, and others like them, are a transforming force. For, ultimately, the promise of a better tomorrow is a more compelling argument for change than a disenchantment with poor yesterdays.

P32940

jehangir s. pocha, editor

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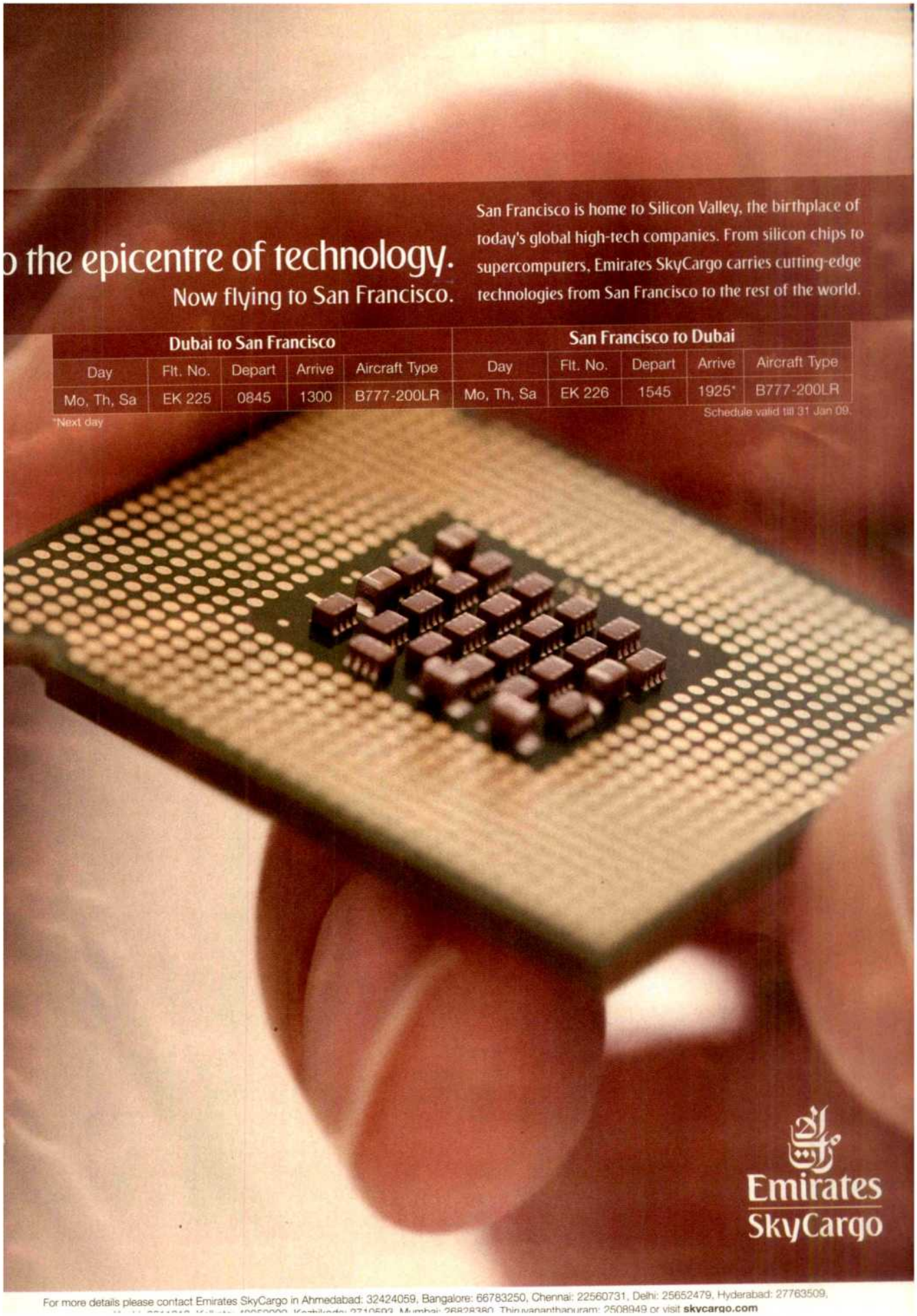
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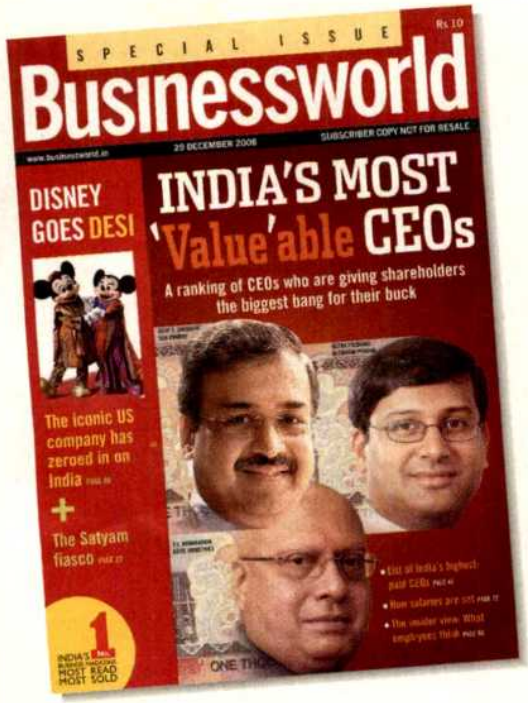

Valuable Insights

The cover story package on most valuable CEOs of India was really informative ('India's Most 'Value'able CEOs, *BW*, 29 December 2008). The rankings and the profiles not only covered various aspects of the working styles of the chief executives of companies, but also rated them on important parameters. The attention paid to accountability in particular, throws light on corporate governance and effective control systems required to monitor the salaries of CEOs. Also interesting were the views of the union and employees and their expectations from CEOs. Profiles of the top CEOs were really outstanding and will be useful for those working in the corporate world. I would suggest that *BW* should bring out an issue on the working plans, strategies, vision and team-building skills of the CEOs.

Kirtikumar S. Bandekar, on ema

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Unsung Heroes Snubbed

Your report on non-IITians was one of the most hypocritical I have read in *BW* in a long time ('The Real Nation Builders', *BW*, 22 December 2008). The article that was supposedly meant to highlight the achievements of the unsung heroes from non-IIT institutes rambles on to glorify IITs and their stature. The first shocker comes early in the story: "Often, they got their jobs because their most sought-after better-scoring cousins... headed to Wall Street and Silicon Valley." And this strain is maintained throughout the article. Another mistake is looking at only few projects. The poster-boy snapshots of IIT or non-IIT alumni do not help you solve any equations. Their actions speak more loudly than the advertising brochures of their institutes. Where IIT alumni lack in numbers, they make up with poster-boy publicity. There is something really wrong in the way India treats its heroes. A laudable effort like a good painting — but painted with a wrong brush.

Brijesh Janardhanan, on ema

Complete Ignorance

The Quick Take was disappointing ('Should India spend less on military and more on fighting non-state actors?', *BW*, 22 December 2008). The "yes" response indicated total ignorance. People such as Pramod Rao and Amit Varma must be good at what they do, bu they have no idea about things such as national security and national strategy. The regularity with which the army gets sucked into operations that are not their priority task is unbelievable. Availability of forces is not an issue; the problems lie in their thoughtless deployment and utilisation. It is better to avoid casual coverage of such important subjects. Votes and statistics can't play any role in such issues. Maybe they should have talked about the Rs 70,000-crore loan waiver to farmers.

Trigunesh Mukherjee, on ema

Corrigendum

In 'Young Achiever' (*BW*, 29 December 2008), it was wrongly mentioned that Jindal Steel and Power's (JSPL) Q2 profit of Rs 450 crore included the Rs 314-crore profit of its subsidiary Jindal Power. JSPL alone had a net profit of Rs 450 crore.

Letters may have been edited for brevity.

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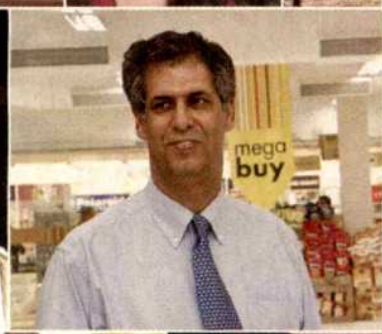

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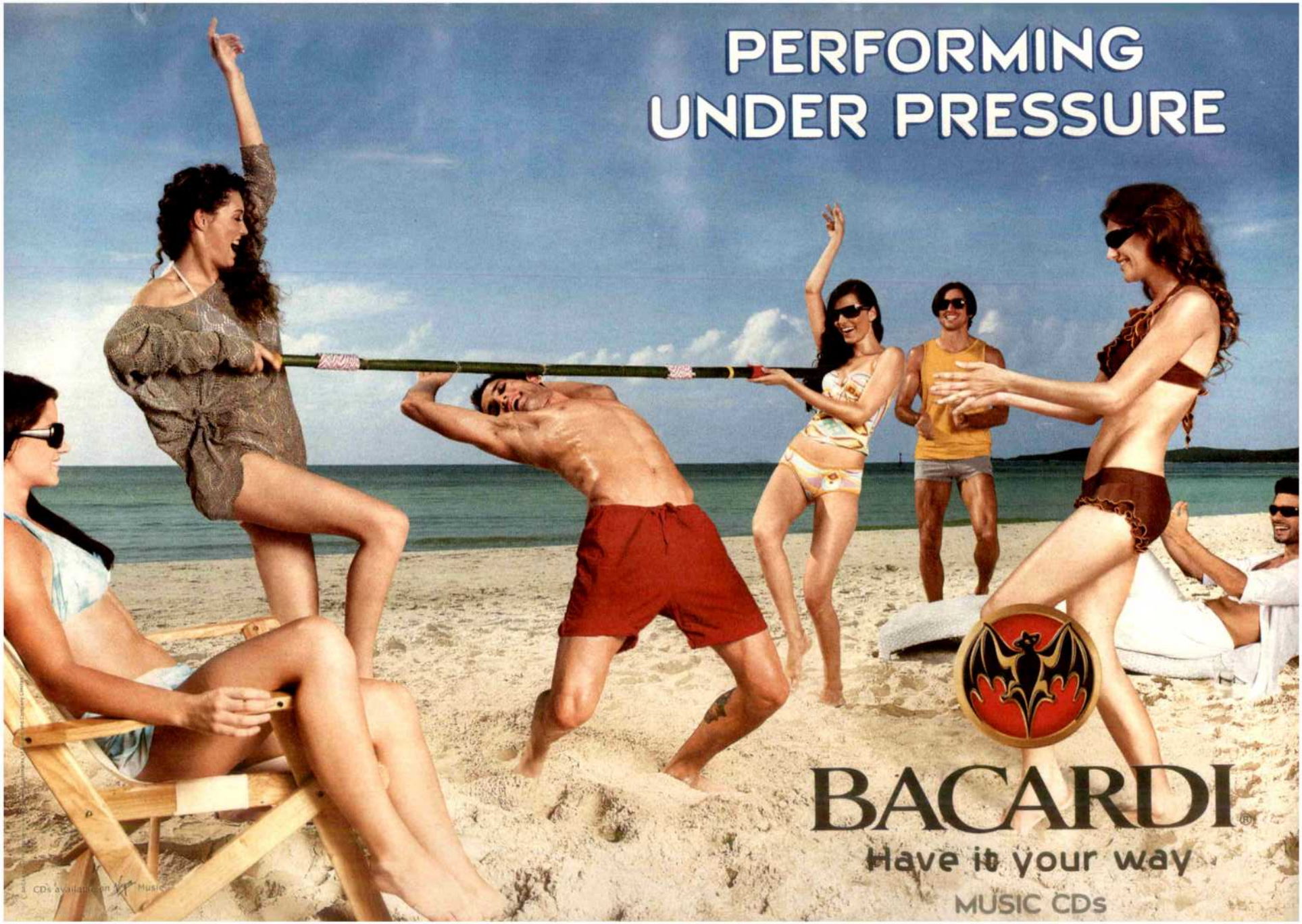
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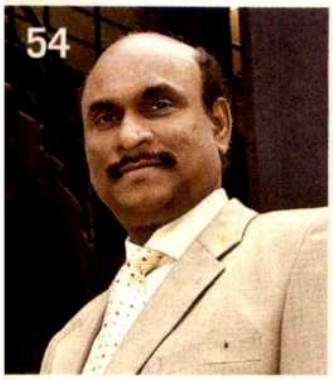

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GOVERNMENT

Fiscal Irresponsibility

The Centre has done it, now states want to evade fiscal responsibility

DRAWING POWER: Parliament has approved a grant of Rs 42,000 crore, bypassing FRBM rules

IN A RARE EVENT, Parliament last week approved a second supplementary demand for grants amounting to over Rs 42,000 crore. At the outset, this additional spending is part of the stimulus package to tackle the global financial crisis. But this has derailed the Centre's requirement to adhere to a fiscal deficit target under the Fiscal Responsibility and Budget Management (FRBM) rules — the government is required to reduce the revenue deficit by 0.5 per cent of the GDP each year while the fiscal deficit should be reduced to 3 per cent by 2008-09.

Now, state governments also want to adopt a similar strategy to increase public spending and relax the FRBM rules. Prior to the stimulus package, Central government's total liabilities were estimated at 7.5 per cent of GDP.

BW has learnt that Andhra Pradesh Chief minister Y.S. Rajasekhara Reddy has indicated to the Centre that it wants a relaxation in the fiscal deficit target for undertaking greater capital expenditure.

In fact, Deputy Chairman of the Planning Commission Montek Singh Ahluwalia told *BW*: "States have a similar case for a higher fiscal deficit and some states have approached us to allow them to borrow more. I think there is a case for allowing the relaxation and we are discussing this with the finance ministry."

Sources say the thinking now is to devise a formula using criteria that can be applied uniformly across all states that would give states a relaxation in the fiscal target for 2008-09, and allow higher levels of borrowing linked to undertaking capital expenditure to the extent possible.

Kandula Subramaniam

64 million dollars. The loan written off by Hillary Clinton, which she had lent to her Presidential campaign

QUOTE OF THE WEEK **"When life seems hard, the courageous do not lie down and accept defeat."**

— QUEEN ELIZABETH II, IN HER CHRISTMAS MESSAGE

STOCKMARKETS

Early Bird

NSE is turning the clock back to compete with SGX

THE NATIONAL STOCK Exchange (NSE) has sought Securities and Exchange Board of India's (Sebi) approval to advance the opening of trading in its index contracts in futures and options (F&O) to 8 am from 10 am. For about a year, the NSE's futures and options contracts on its S&P CNX Nifty index has been facing increasing competition from Singapore Exchange's (SGX) F&O contracts.

SGX's volume in Nifty futures comprises almost 30-40 per cent of NSE's Nifty futures volume. The NSE wants to compete with it by matching the early time zone advantage SGX has for global equity investors and hedge funds.

SGX starts trading at 9 am, when it is 6:30 am in India. By the time Indian market starts, investors in SGX have already had a head start of three-and-a-half hours. If Sebi approves NSE's proposal, it will reduce SGX's early bird advantage by half.

The only hitch is theoretical — futures normally depend on underlying for price discovery and the spot market starts only at 10 am.

But, says Ajay Shah, senior fellow at National Institute of Finance and Public Policy, "Nifty is a macroeconomic underlying discovered based on thinking about Indian economics and politics and not price discovered from the bottom up by adding up the stocks."

Rajesh Gajra

BLOOMBERG

STIFF COMPETITION: SGX is giving tough competition to NSE's futures and options

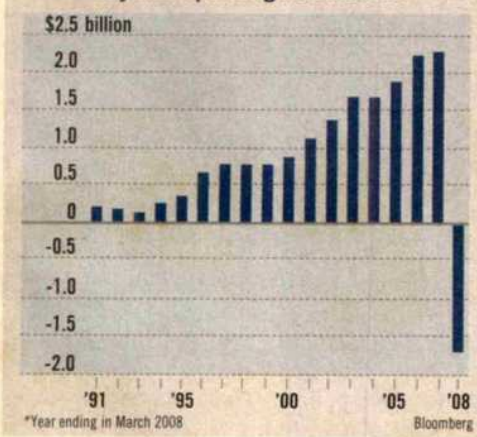
Global NEWS

It was a coup of a different kind. Even as the US and African Union have denounced the military takeover in Guinea, the west African country's deposed Prime Minister Ahmed Tidiane Souare has supported coup leader Captain Moussa Dadis Camar. The revolt came after President Lansana Conte, who ruled the Guinea for 24 years, died last week.

TOYOTA'S FIRST LOSS

Plummeting car sales and a stronger yen led Toyota Motor to forecast a 150 billion yen ($1.7 billion) operating loss for the year*, its first annual loss since 1938.

Toyota's operating income/loss



*Year ending in March 2008

Bloomberg

AUTOMOBILES

BUMPY ROAD ALL THE WAY

IS TATA MOTORS BEGINNING TO CRUMble under the weight of the Jaguar-Land Rover acquisition? Tatas acquired these two UK luxury brands through a bridge loan of $3 billion and later tried to refinance the deal. But Tatas have run into difficulties.

In September, Tata Motors tried to raise $1 billion through a rights issue but it fetched only $840 million. Now, Tatas are trying the public deposits route to garner at least Rs 2,000 crore and have also managed to raise only Rs 1,000 crore from the Life Insurance Corporation of India.

Falling short of money, Jaguar and Land Rover have asked the UK government for help. But as protests grew in the UK that an "Indian company" need not be bailed out, Business Secretary Lord Peter Mandelson said that the Tata Group is well endowed and that it is capable of bailing out the troubled UK brands.

Tatas' acquisition itself was considered a bailout for the troubled luxury brands. Now, is a second bailout by Tatas on the cards?

Vishal Krishna

AGAINST ALL ODDS

More than 100 boats are taking part in the annual Sydney to Hobart yacht race, one of the toughest yachting races in the world. This is also the 10th anniversary of the 1998 racing tragedy in which five boats sank, 66 retired from the race, 55 sailors were taken off their yachts, and six sailors died.

PHARMACEUTICALS

Power Centres

Can two regulators with different standards function in India?

AT A TIME WHEN THE US Food & Drug Administration (FDA) is criticised for not doing enough to guarantee the quality of Indian generics exported to the US and not stepping up inspections of Indian manufacturing facilities, media reports indicate the US drug regulator will open an office in India.

A full-time office should be better able to do that than flying in regulators from the US. The good thing is that India may be forced to upgrade its own regulatory system. The FDA is known to have a high bar for evaluating drugs meant for the US while India has struggled to get many manufacturers to abide by minimum standards for the domestic market.

However, how long two regulators can operate on Indian soil with a similar objective but different standards, remains to be seen.

Gauri Kamath

BLOOMBERG

TEXTILES

HEMANT MISHRA

Raising Hope

THE TEXTILES MINISTRY IS MOOTING A bailout package for India's troubled t sector, which witnessed massive job over the past year. "We have recomm a detailed package for the industry," Textile Minister Shankarsinh Vaghel package offers interest rate subventi the textile industry so that bank cred available to the industry at 7 per cen reducing the margin money require to 10 per cent from 25 per cent.

Reality Check

People who scrimp on sleep are more likely to develop hardening of their arteries, a precur heart disease, according to the *Journal of the American Medical Association*.

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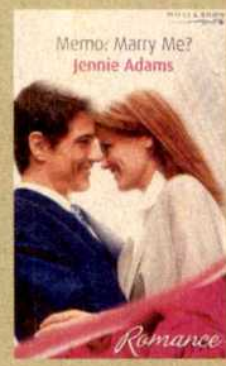
PUBLISHING

CASHING IN ON ROMANCE

WHENEVER YOU THINK OF UK-based Harlequin Enterprises, which publishes Mills & Boon, it brings to mind a scene of an amorous couple having a mushy evening in the glory of full-moon night.

While you may imagine this happening between Jane and Martin, here's the twist. After starting its India operations in February 2008 — publishing, printing and distributing the internationally famed romance novels in India — Harlequin is



planning to go 'desi' in the real sense.

The company is arranging for competitions starting in the new year to bring forth good romance writers in the country. Currently, Mills & Boon through its global presence publishes in 26 languages working with over 1,300 authors.

Adding the Indians to the list will only enrich this list. So the next time you pick up a Mills & Boon, don't be amazed to find a hot Indian love story unfolding in front of you. Only that the heroine would be wearing a fluttering sari instead of a skirt, walking arm-in-arm with her dream boy — in a dhoti-kurta!

Janhavi Abhyankar

TOP 10 LISTINGS

THE WORLD'S MOST POWERFUL

1. Barack Obama, US President-elect
2. Hu Jintao, Chinese President
3. Nicolas Sarkozy, French President
4. Ben Bernanke, US Federal Reserve Chairman
5. Jean-Claude Trichet, European Central Bank President
6. Masaaki Shirakawa, Bank of Japan Governor
7. Gordon Brown, British Prime Minister
8. Angela Merkel, German Chancellor
9. Vladimir Putin, Russian President
10. Abdullah bin Abdulaziz Al-Saud, Saudi King

Source: *Newsweek*

***Playboy*'s Indian avatar is likely to generate a few controversies**

MEDIA

Naked Truth

ADULT ENTERTAINMENT magazine publisher Playboy Enterprises has announced its intention to launch the magazine in India, while cutting 14 per cent of its work force globally. *Playboy*'s decision might bring naughty smiles to prospective publishers and readers in the subcontinent.

While the publication might see India as a potential business destination, it still has to grapple with Section 292 of Indian Penal Code that determines what constitutes pornography.

"Supreme Court in India follows Miller Test, that determines what is acceptable in a society; *Playboy* will have to meet that standard," says Vakul Sharma, a senior advocate on Cyber Law and Privacy.

Playboy is known for inviting belles from corporates in the news to pose nude. Its erotic photos of 'The Women of Enron' generated as much heat as the firm's downfall, and the magazine is now lookin for models from Lehman Brothers.

Given that Indian companies are facin bankruptcies for the first time, will femal employees get a call from *Playboy India*?

The thought is en ugh to get the puritans in our midst to try and ban the bunny. After all, forme Information & Broa casting Minister Sushma Swaraj banne the Russian TV cha nel TB6, which aire soft porn in India. *Playboy* is certain t give her and other guardians of 'Indian values' much materi for their cause.

M. Rajendr

BLOOMBERG

IDEAS THAT SELL: *Playboy* is known for inviting women staff of troubled corporates to pose in the buff

33 million dollars. The compensation awarded to Verizon Communications in a cyber squatting case.

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TRIBHUWAN SHARMA

All cash deal

Azim Premji-owned Wipro Technologies has acquired Citi Technology Services, the India-based IT services arm of the New York-based Citigroup, for $127 million in an all-cash deal. Wipro and Citi will sign a master service, which provides for delivery of $500 million in service revenue over six years. The transaction is expected to be complete by March 2009.

New partner

Bharat Heavy Electricals (BHEL) is scouting for a technology partner for its joint venture with the Nuclear Power Corporation of India (NPCL). BHEL is in talks with Czech utility Skoda Power, French major Alstom and two other firms. "The technology partner for our joint venture with NPCL would be finalised in four months time," says K. Ravi Kumar, chairman and managing director of BHEL.

Securing future

New Delhi-based AP Securitas Group has formed a joint venture with Israel's Ares Group. Both companies will invest $5 million each in the venture, Ares-APS Security Services, which will offer advanced security solutions and consultancy services in India. The new company will generate business worth $10 million by 2010, says Anil Puri, executive director of APS Group.

High stakes

Tata Sons, the Tata Group's holding company, has increased its stake in Tata Communications by 2.37 per cent. Tata Sons has acquired 6.75 million shares through an *inter se* transfer of shares (transfer of shares between or among group companies), Tata Communications has said in a disclosure to the Bombay Stock Exchange. With this acquisition, Tata Sons now holds 31 million shares representing 10.88 per cent in Tata Communications.

BLOOMBERG

DILEEP PRAKASH

Sun raises in Singapore

Singapore-based private equity firm Nalanda Capital has acquired 7 million shares in Kalanidhi Maran-owned Sun TV Network for Rs 101.50 crore, through an open market bulk deal. This translates into a 1.8 per cent stake. Chennai-based Sun TV owns 20 channels, 43 FM radio stations, two daily newspapers and four magazines.

BW-THOMSON REUTERS PE DEAL TRACKER

December The Asian PE market saw 848 deals worth $10.50 billion as on 22 December 2008. China was the largest market in the region with 309 deals worth $4.01 billion.

Top India deals

TARGET	INVESTOR	NATION	DEAL SIZE ($M)
Orient Green Power	Olympus Capital Holdings Asia, Shriram EPC, Bessemer Venture Partners	Hong Kong, India, US	55.00
CMS Computers*	Blackstone Group	US	50.00
Deepak Cables (India)	UTI Venture Funds Management Co., IDFC Private Equity Co.	India	42.12
Ujjivan Financial Services	Sequoia Capital, Lok Capital Group, SIDBI Venture Capital	US, India	19.60
Sphaera Pharma	BPEP International	Hong Kong	15.00
Triveni Engg & Industries	Nalanda Capital	Singapore	10.30
IL&FS Securities Services	Croupier PE Partners	US	10.00
Myntra Designs	Accel India Venture Fund, NEA-IndoUS Capital Advisors	India	5.00
Azure Power	Helion Venture Partners, Foundation Capital	Mauritius, US	NA

Figures for 4 November-20 December 2008 *IT infrastructure mgmt & outsourcing unit of CMS Computers

Figures for 1 January-22 December 2008

Aurobindo's Canadian foray

Hyderabad-based drug maker Aurobindo Pharma has received approval from Health Canada to sell terbinafine hydrochloride tablets in multiple strengths. The drug is the generic equivalent of Novartis' Lamisil — used to treat fungal infections in skin and nails.

Wooing the elusive customer

German luxury car maker Audi has announced a new scheme for India — zero per cent financing and an extended four-year warranty for its Audi A6 range cars. The Audi A6 range includes four variants — 2.8 FSI, 3.2 FSI quattro, 2.7 TDI and 3.0 TDI quattro.

Second attempt

Ramesh Chandra-promoted real estate developer Unitech is raising Rs 5,000 crore through debt and equity issues. The Gurgaon-based company will convene an extraordinary general meeting on 19 January 2009 for shareholder approval. Unitech's earlier plan to raise Rs 4,000 crore through a private placement was called off when the markets tanked.

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Prize catch

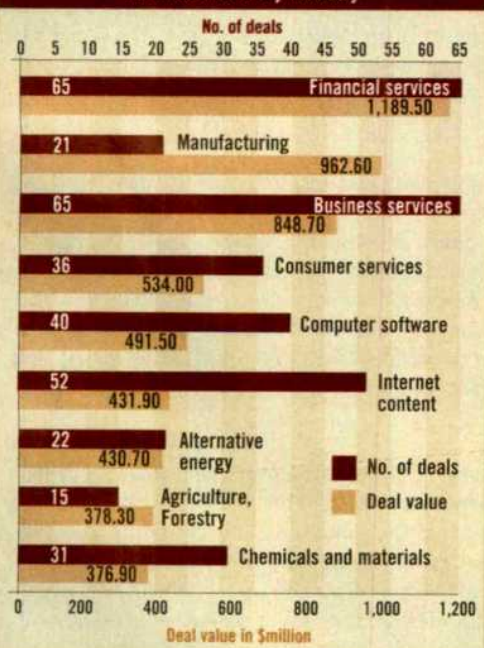
Samsung Engineering of South Korea, along with German engineering firm Linde, has bagged a $1.5-billion worth contract from ONGC Petro-addition (OPaL), a subsidiary of state-owned Oil & Natural Gas Corporation, for an ethylene project, which will be located in the SEZ notified area at Dahej in Gujarat. The contract is for a dual feed ethylene cracker unit and associated units plant of OPaL. Samsung Engineering has a major stake of about $1 billion in the project.

A conscious move

Piramal Healthcare has acquired US-based generic inhalation anaesthetics maker Minrad International for $40 million. This will give the Mumbai-based company a pie of the lucrative market for sevoflurane, the largest selling inhalation anaesthetic in the US. The funding for the acquisition is through internal accruals, says Swati Piramal, director of strategic alliances and communications. Minrad will be combined with a newly incorporated wholly owned subsidiary of Piramal. The new acquisition is expected to contribute to Piramal's fiscal 2010 earnings.

BLOOMBERG

PE investments by industry



Figures for 1 January-22 December 2008

Top Asia deals

TARGET	NATION	INVESTOR	NATION	DEAL SIZE ($M)
eTelecare Global Solutions	Philippines	Providence Equity Partners	US	291.95
PBL Media	Australia	CVC Asia Pacific	Hong Kong	225.00
Hongshi Holdings Group	China	Goldman, Sachs & Co.	US	120.00
South Beauty Catering Management Group	China	CDH China Management Co.	Singapore	43.86
Deepak Cables (India)	India	UTI Venture Funds Management Company, IDFC Private Equity Co.	India	42.12
Ethos Capital One	Malaysia	New Vernon Private Equity, Goldman, Sachs & Co.	Mauritius, US	27.34
Fujian Yonghui Group	China	HSBC Pte Equity	Hong Kong	35.00
Sunband Media	China	IDG Technology Venture Investment	China	10.00
Sree Ramcides Chemicals	India	Draper Fisher Jurvetson ePlanet Ventures	US	5.07
Global Education and Technology Group	China	SAIF Partners	Hong Kong	5.00

Figures for 7-20 December 2008

Note: Sum invested is actual money taken down or disbursed to portfolio companies. PE deals are classified as investments where the investor is a PE firm. The above tables do not include investments made by angel investors, hedge funds, trusts and corporate investors. Such investors are taken into account only when they have invested alongside PE firms.

Log on to www.businessworld.in for the complete list

Quick Take

Should the government prop up real estate prices and companies?

We asked... Rahul Aggarwal, CEO, www.click2insure.in; Daniel Francis, consultant, government relations, Hanmer MS&L; Rohtas Goel, chairman and managing director, Omaxe; Anshul Jain, CEO (India), DTZ International Property Advisers; Santosh Mangal, managing director, Nexgen Edusolutions; Snehal Mantri, director, marketing, Mantri Developers; Alok Mittal, managing director (India), Canaan Partners; B.K. Narula, CMD, Silver Smith India; Ajay Piramal, chairman, Piramal Healthcare Sudhanshu Purohit, CEO, ABIL Group; Abhishek Somany, joint managing director, Somany Ceramics

"The government should take supportive steps to bail out real estate developers."

Rohtas Goel, chairman and managing director, Omaxe

"The government should take immediate steps to decrease interest rates to create demand."

Rahul Aggarwal, CEO, www.click2insure.in

"I think the real estate prices should be reduced and brought down to more realistic levels."

Abhishek Somany, joint managing director, Somany Ceramics

Yes 27%

YES BECAUSE: The real estate sector has linkages to a plethora of ancillary businesses, so it must be supported by the government. The sector has provided the impetus for infrastructural growth in the country. The government should encourage banks to offer home loans on easy terms to fuel demand, which has slipped significantly in the past few quarters. However, the government needs to monitor the prices constantly and ensure that low interest rate regime is not leading to a rise in prices. If need be, the government should provide financial support to beleaguered developers. The upper limi for interest rate sops should be raised to Rs 30 lakh instead of the existing Rs 20 lakh. Banks should also reduce interest rates for loans up to Rs 50 lakh to affordable levels.

No 64%

NO BECAUSE: The real estate prices should be determined by free markets. Supporting the prices at this juncture will mean that excesses created in the past three years will simply be absorbed by the tax payers, with no lessons learnt either by the public or by industry players. The government, however, needs to make financing available to the sector at competitive rates and increase transparenc through structural reforms for approval processes and have a regulatory body to monitor the industry. The focus of the government should be on easing liquidity and spurring demand in the industrial secto which is the backbone of any economy, rather than on controlling prices in the real estate sector. Real estate prices should be allowed to settle down to realistic levels.

Maybe 9%

MAYBE BECAUSE: The cost of doing business in India is among the highest primarily due to high real estate prices. The prices have gone beyond the reach of the common man. Housing i one of the biggest challenges that the government is facing. The slowdown in the sector has given the government an opportunity to get housing prices under control. Government needs to negotiate with builders to rationalise prices, especially in urban areas. The real estate companies should get government help in terms of liquidity and financing, but not prices. A survey conducted last year put real estate's net margins at 49 per cent to be the highest in all sectors. High real estate prices are a function of speculation and greed by realtors.

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*Source - www.defenceindia.com

For God's Sake, Go!

by omkar goswami

DEAR MR RAMALINGA RAJU,

I write this open letter not as an independent director of Infosys Technologies, a competing company in the IT space, but as an advocate of fiduciary responsibility and good corporate governance — a role that I have performed for the past decade. Independence demands speaking up when occasions so require. By being discreet regarding the Satyam imbroglio, all independent directors risk being tarred by the same brush, which corporate India can ill afford.

Satyam's promoter and board should resign. Failing which, they may face a real shareholders' revolt

On 20 April 1653, Oliver Cromwell, minor gentry of Huntingdon, member of Parliament, soldier, general, leader of the English Civil War, and eventually, the Lord Protector of England made an impassionate speech to the ineffective Rump Parliament before dismissing it for failure to discharge its duties to the people. He said, "You have sat for too long here for any good you have been doing. Depart, I say, and let us have done with you. In the name of God, go!"

I quote Cromwell with a purpose. You began, built and grew a great international company that India was proud of. Nobody can deny Satyam its place in the Big Four along with TCS, Infosys and Wipro. Nobody can deny that for the vast majority of time under your helm, you grew the business, its profits and shareholder wealth. Suddenly, you have undone it all and have seriously damaged the company's reputation as well as that of its fiduciaries. I don't know what prompted such action: hubris, poor advice, or the notion that success is the licence to do anything. Whatever the reason, the outcomes have been horrendous for Satyam.

First, the proposed transaction. You and your trusts, owning just 8.74 per cent of the company's equity, proposed to transfer $1.6 billion of Satyam's cash to Maytas and Maytas Infrastructure, where your family owns 36.6 per cent of equity. This is nothing other than a huge related-party transaction — one that you should not have proposed at all. It makes no difference to the *substance* of corporate governance that you didn't break any laws, which seems to be the defence of some of your independent directors. You broke something far more important: the fiduciary responsibility that the board ought to have had for its shareholders.

Second, if you felt that the deal was strategically important for de-risking Satyam, why didn't you first ask the opinion of foreign institutional investors, ADR holders, Indian mutual funds, insurance companies, banks and financial institutions who together held 61.2 per cent of the stock, or seven times the equity that you and your family owned? You would have got the answer — as you did after the stock was hammered like never before.

Third, if the deal was so good for Satyam to a point where one of your ex-civil service directors said, "Even your uncle will not sell you the land at the price Maytas was selling it to Satyam", why did you do an about turn in less than 24 hours, and then talk of a proposed buyback and higher dividends?

Fourth, your management, spokespersons and some directors have said ruinously contradictory things. One instance is illustrative enough. It was claimed that one of the Big Four accounting firms did the valuation of Maytas' assets — which was denied by each of the biggies. That has destroyed credibility.

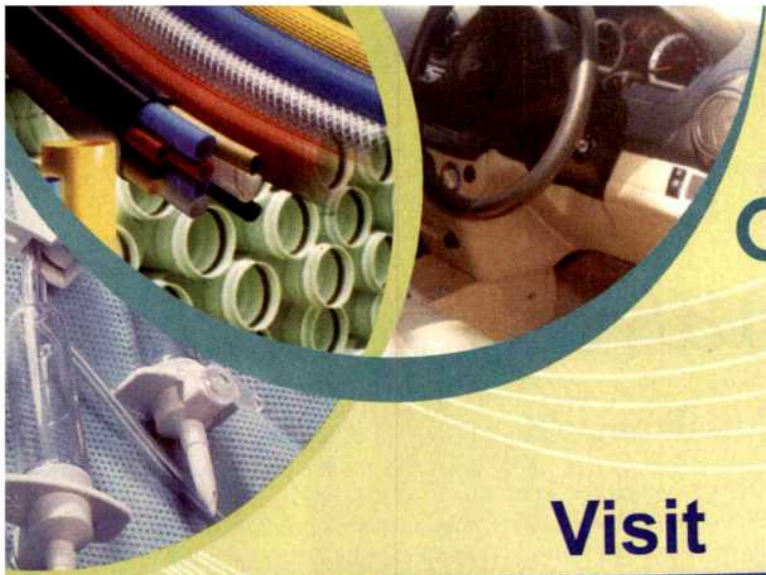
Fifth, and probably the most damaging, is the latest news of the World Bank debarring Satyam from doing business with it for eight years on account of "alleged malpractices" and "providing improper benefits to Bank staff" — a ban that has been confirmed by the World Bank's spokesperson in New Delhi. You must have known of the Bank's reasons for the ban. Was the board fully informed of it? I mean fully.

Mr Raju, there are things called negative externalities, where the action of one or a few can cause harm to many. Any sensible person in the corporate world will agree that the actions taken by you, your management and your board, whether by design or otherwise, have not only damaged Satyam but also the reputation of corporate India. Today, the media is questioning the role of independent directors. Over the top, you may say. But it is your actions that have given them the peg to hang the question on.

There is only one honourable thing to do. You and your board should offer to resign. Or else you may feel the heat in the next annual general meeting when the 70 per cent outside shareholders gather proxies and force the resignations. Satyam remains a good company. You cannot let it go down the tube.

It is apt to end with another quote from Cromwell. When King Charles I was executed, Cromwell called it a "cruel necessity". It is time for you to think of that. Or else, others will.

The author is chairman of CERG Advisory.
omkar.goswami@cergindia.com



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Curious Purchases

by Muthukumar K.

Bearish trends are prompting companies to buy back shares

THINK OF IT AS THE REVERSE OF AN INITIAL PUBLIC offering (IPO). Since September this year, a number of companies have offered to buy back their shares from the stockmarket at prices much lower than they were issued at or far off their one-year highs. And, curiously, the list of companies is growing longer. Usually stock buybacks are a tool to boost stock value (as it is usually done at higher price than then prevailing market price), but the intentions of managements are not often too clear.

The last time such buybacks happened in large numbers — between 2001 and 2003 — many multinational companies delisted from the stock exchanges. Prominent among them were Cadbury's, Reckitt Benckiser, Philips India, Carrier Aircon and Kodak India.

The open-offer prices given to minority shareholders were also unattractive: the pricing formula was based on historical prices, which were anyway lower at that time. But under the current gloomy business conditions and credit market uncertainty, why are companies expending cash resources at this juncture, and not on operations?

"While India Inc.'s balance sheets are in a better position compared to 2001-03, we have relatively more companies experiencing stress on their balance sheets," says Sukumar Rajah, chief investment officer for equity at Franklin Templeton Investments India.

Multiple factors such as leverage-based acquisitions and unproductive deployment of excess capital that flowed into certain sectors have been factors. Rajah suggests that given the impact of the global credit squeeze on domestic credit flows, companies should prefer to use cash reserves for ongoing operations rather than using them for buybacks/dividends.

Same Game, Different Players

"Unlike the previous bear run (2001-03) when bigger companies such as Reliance Industries and Britannia announced buybacks, this time the bulk are small and mid-sized companies," says Prithvi Haldea, chairman and managing director of Prime Database, a Delhi-based market tracker.

Since August this year, according to Prime Database, buybacks have been on for 18 companies. Many more have announced buybacks in the past few weeks. While Satyam Computer Services is holding a board meeting soon to decide on the same, DLF, Godrej Consumer Products, India Infoline (see 'Increase In Promoter's Stake') are already buying from the stockmarket. Compare this to 2002 and 2003, when 27 and 31 firms, respectively, resorted to buybacks.

So, is it a way of increasing a promoter's stake in his or her company? After all, a reduction in the number of shares — which is what a buyback does — increases the shareholder's piece of the pie, mostly that of the promoter.

Certainly the buyback activity announced in recent times for some companies is increasing promoters' stakes substantially. For companies such as Jindal Polyfilms, India Infoline, FDC, and Surana Telecom and Power, it could be more than 5 per cent on successful completion of the buyback.

"Each has to be seen on a case-to-case basis," says Parag Parikh of Parag Parikh Financial Advisory Services, who has tracked the Indian stockmarket over a span of two decades. But he acknowledges that "on the whole, Indian

BUY-BACK SEASON

Eighteen companies have offered to buy back shares since August

Company	Offer amount (Rs crore)	Promoter's holding before offer(%)	Increase in promoter's stake(%)*
Jindal Poly Films	150	55.2	18.40
India Infoline	99	33.4	8.88
FDC	36	64.0	5.00
Surana Telecom & Power	6	54.7	4.73
Maestros Mediline Systems	3	43.3	4.57
Valiant Communications	3	32.0	4.10
Supreme Industries	25	45.1	3.46
Bosch	639	69.7	3.23
Alembic	33	61.2	2.78
Monnet Ispat & Energy	75	38.3	2.05
Ipca Laboratories	60	46.0	1.90
Gateway Distriparks	64	42.7	1.87
R. Systems International	8	45.2	1.85
HEG	49	49.7	1.61
EID-Parry (India)	47	45.9	1.56
Gujarat Fluorochemicals	61	66.5	1.19
DLF	1,100	88.2	1.15
Godrej Consumer Products	15	69.4	0.27

Source: CMIE, Prime Database, *BW* research *if offer fully completed

promoters need to improve on corporate governance".

The Other Side Of The Story

Kapil Krishan, chief financial officer (CFO) of India Infoline, says, "Our share price was quoting at a discount to book value and, hence, we went for a buyback." The company's management feels its business is adequately funded for its medium-term capital requirements.

Buybacks in theory could be indicative of promoters' faith in their own business — after all, they are increasing their stake in their companies. "Management knows more than any analyst about business and cash flows," says Abhay Aima, country head of equities and private banking group at HDFC Bank.

Parikh agrees. "DLF's buyback is a classic case of a buyback being done to restore investor sentiments," he says. For Satyam Computer Services, its share buyback is a way to win back the confidence of its shareholders — hard though it may be under the circumstances the company finds itself in.

Following Through

Not all buybacks are completed, however. Analysts suggest that while the cash positions of DLF, India Infoline, EID Parry and Monnet Ispat looked comfortable to fund their buyback, Jindal Polyfilms and Ipca Labs could be financially stretched. Adds Rajah, "The seriousness of the announcements also need to be monitored."

Do announcements move prices? When India Infoline proposed to buy back shares from the open market, its share prices went up sharply — as much as 30 per cent in a week; its current stock price of Rs 45 per share is more than the maximum buyback price of Rs 43.20 set by the company. Says Krishan, "We still have the buyback offer running till November 2009."

Some sections of the investing community feel differently. Chandrakant Sampat, a highly successful investor, says that dividends are preferable to buybacks. In the US buybacks are preferred over dividends for their tax efficiency. And in India, too, dividends are tax free for the shareholders. Says Rajah, "Dividends can be viewed as a more permanent commitment compared to share buybacks, which are flexible." Is the management — which often gets compensated by stock options and interested in buoyancy of stock prices — listening?

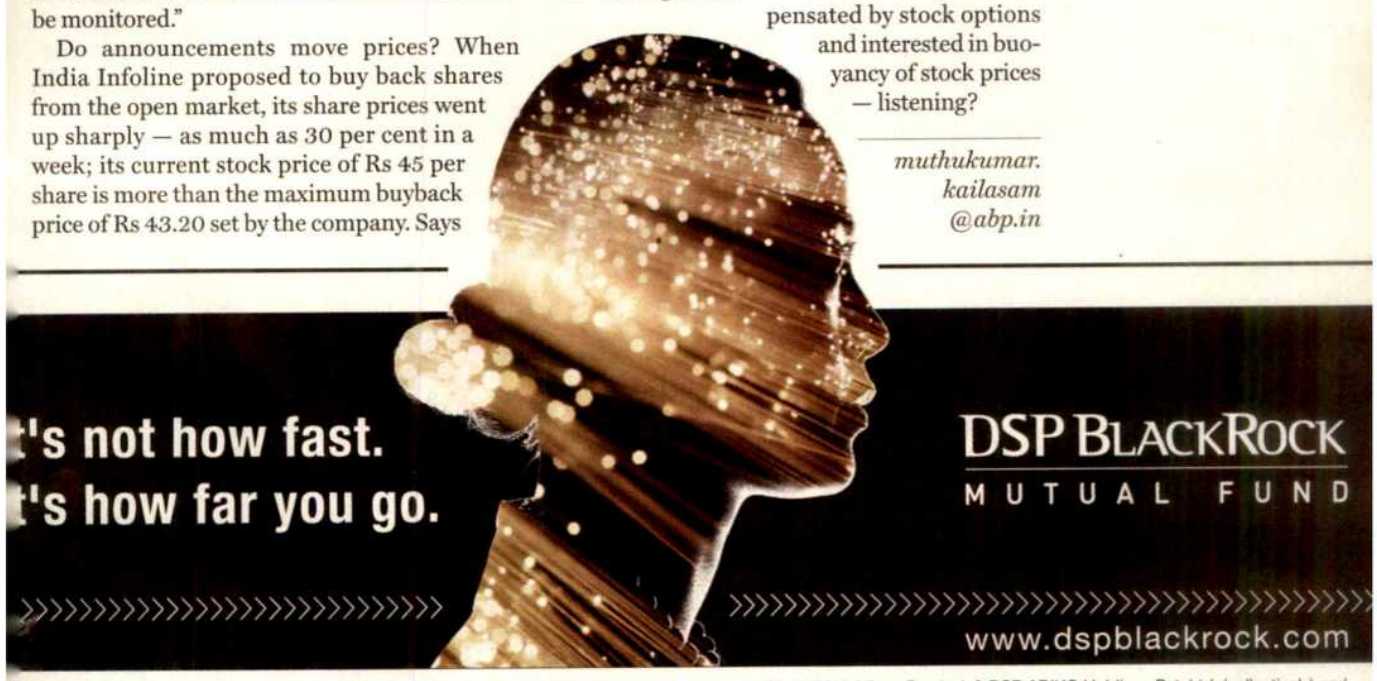
muthukumar.kailasam@abp.in

DELISTING WHEN THE GOING IS BAD

Large buybacks offered by companies to delist during 2001-2003

Company	Offer amount (Rs crore)
Cadbury India	875
Reckitt Benckiser (India)	403
Indian Aluminium	218
Syngenta India	203
Atlas Copco (India)	134
Carrier Aircon	115
German Remedies	110
Otis Elevator	109
Kodak India	99
Madura Coats	87

Source: Prime Database



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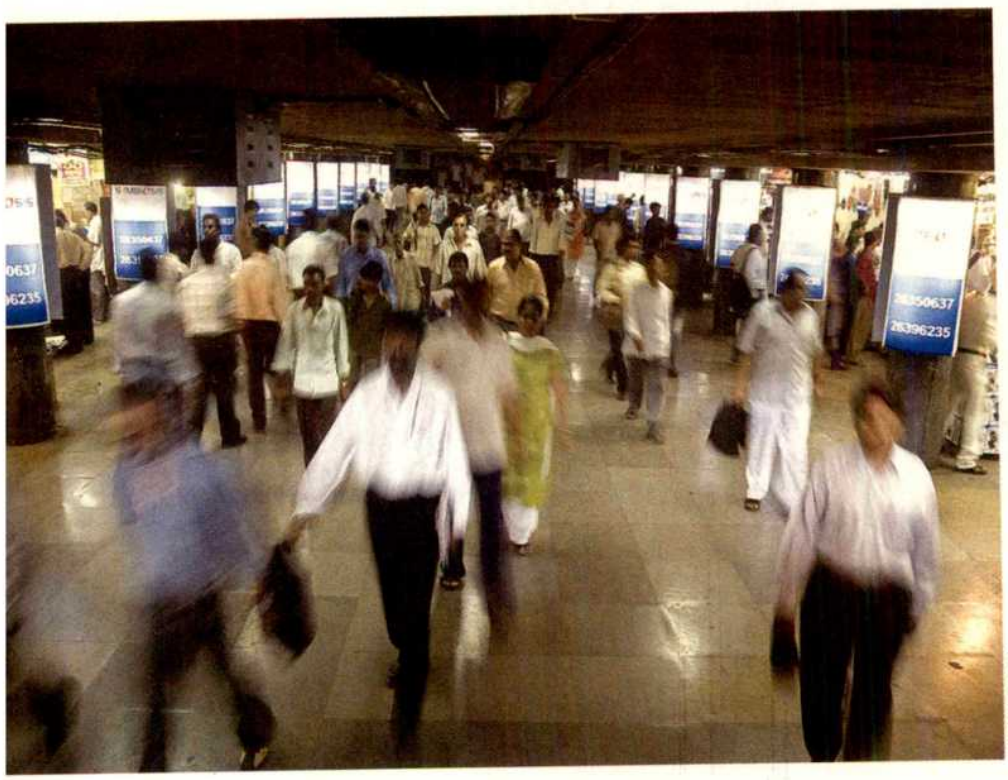
Figures That Don't Talk

by Shalini S. Sharma



SUBHABRATA DAS

HARD TO BELIEVE: According to official data, unemployment has actually come down

Nobody knows the number of unemployed in India

QUESTION: WHICH OFFICIAL AGENCY IN INDIA provides the exact figure of the number of people employed in the country or the rate of unemployment?

Options:

a) Ministry of Labour

b) Directorate General of Employment and Training

c) Ministry of Statistics and Programme Implementation

d) None, there is no such agency in India.

Depending on their level of faith or ignorance, most would opt for 'a', 'b' or 'c'. But those in the know would choose option 'd'. For a country that last counted its heads seven years ago (Census 2001) and today does not even know the number of people living within its geographical boundaries, to expect any kind of statistics on the number of people employed or unemployed would be expecting too much.

The only official sources of such figures are the employment exchanges. And if the latest figures from 958 of these exchanges are to be believed, unemployment actually came down last year by 1.5 million: while there were 41.4 million job seekers at the end of 2006, there were only 39.9 million at the end of 2007. Some bemused babus might be itching to propose an "excellence award" for these employment exchanges for speedily solving the unemployment problem that is staring not just India but the whole world in the face today (see 'The Pink Slip Demon Rises', *BW*, 3 November 2008). The only problem is that today, very few unemployed youth take the trouble to go to an employment exchange to get registered.

According to R.P. Dhiren district employment officer for the east and the north east zone in New Delhi, the number of people coming to employment exchanges today is virtually nil. There are 2 branches of the exchange in Delhi alone, while a manual of its aims and objectives clearly states, "The Directorate of Employment, Delhi neither generates nor provides employment to people. What these exchanges seek to provide is vocational guidance job seekers in choosing their career. Even for that, says Dhiren, there are very few who come this way.

Director of Employment Exchanges K. Meena says apart from the 61st Round of the National Sample Survey of Organisation (NSSO) and the employment exchanges, there is no other official source of data on the number of unemployed people in the country. There are private estimates by various industry organisations, but they cannot be said to be authentic. Interestingly, he says, the numbers given out by the exchanges also cannot be relied on because "these people are already employed in some capacity or the other in the private sector and register their names only in the hope of landing a government job some day".

While most developed countries have a well-planned system of registering the names of the employed and the unemployed, in India there is no such thing as a national registration number or an identity card for bona fide citizens. There are sporadic bursts of creativity

FIGURE THIS

- In India there is no centralised data collection agency for unemployment.
- The only source of unemployment figures are the archaic employment exchanges where nobody bothers to go.
- In China, even pet dogs have a registration number.
- Indian citizens still don't have one.

and attempts to fix numbers in the form of a PAN card but that is largely for the purpose of calculating income tax. With only 31 million out of a billion people contributing to the tax kitty, this number is of virtually no use for any other purpose. The government does have a project that aims to give national identity cards to all citizens, but so far it is only on paper. The election cards serve as some form of identification but there, too, there are charges galore of duplication and non-verification of data. And that still does not address the problem of the number of the unemployed.

Says M.K. Pandhe, president of the Confederation of Indian Trade Unions (Citu), "In India, barring employment exchanges whose figures cannot be relied on, there is no agency that does the job of identifying the number of unemployed people." According to him, India simply does not have the resources to undertake such a gigantic task. Citu had proposed an unemployment allowance that, Pandhe says, is the norm in developed countries and would have prompted people to come and register themselves as unemployed.

That would have also given an idea of the actual numbers involved, but the government paid no heed to the suggestion.

While giving unemployment allowance can be one way of getting voluntary information, it is bound to lead to all sorts of malpractices.

NSSO comes out with nation-wide figures every five years. There is already a proposal to make this an annual exercise, informs Meena, which can be another way of addressing the problem. Setting up grassroots level registration centres and spreading awareness among people about the need to get not just birth and death, but also employment status registered could be another way forward.

Suresh Tendulkar, chairman of the National Statistical Commission, says, "Unemployment is a complex issue. What most people call unemployment is the inability to sell one's services voluntarily, whereas a majority of our population lives in rural areas where people are self-employed." Do we call a farmer unemployed? No. Rather it is the low productivity levels of this self-employed segment that are a cause for concern, says Tendulkar.

According to rough estimates, the unemployment rate in India is 7.2 per cent. There are about 40 million unemployed people said to be in rural areas and its double — 80 million — in urban areas but there is no way of establishing whether these are the right numbers. The National Employment Policy of the Directorate General of Employment & Training talks about everything else but the number of people who need to be provided employment.

Clearly, when the problem cannot even be quantified, one cannot begin looking for a solution.

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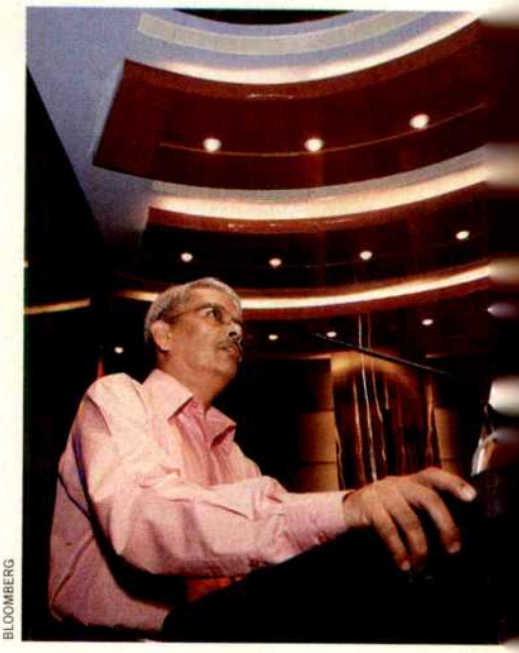
SLOWING BUSINESS

The data show contraction in production figures across all sectors

	(%)	Growth y-o-y (%)			Apr-Oct (Avg %)	
		Oct-07	Sep-08	Oct-08	FY08	FY09
Classification by economic activity						
Industrial production	100.0	12.2	5.5	(0.4)	9.9	4.1
■ Manufacturing	79.4	13.8	5.6	(1.2)	10.6	4.2
■ Mining	10.4	5.1	5.7	2.8	4.9	3.7
■ Electricity	10.2	4.2	4.4	4.4	7.2	2.8
Classification by use						
■ Capital goods	9.3	20.9	18.6	3.1	20.3	9.2
■ Basic goods	35.6	6.5	4.6	2.7	8.9	3.6
■ International goods	26.4	13.9	(2.6)	(3.7)	10.5	(0.3)
Consumer goods	28.7	13.7	7.2	(2.3)	6.7	6.2
■ Consumer durables	5.4	9.0	14.6	(3.0)	(1.4)	5.6
■ Consumer non-durables	23.3	15.8	4.6	(2.0)	9.7	6.4

Y-o-y: year-on-year

Source: CSO, Bloomberg



BLOOMBERG

No Great Expectations

by Srikanth Srinivas

Q3 results to show the growth engine running out of gas

IF YOU ARE A KEEN READER OF CORPORATE results, buy yourself a magnifying glass as a New Year gift. Because the one thing that will be hard to find will be cheerful news of good corporate earnings performance for the third quarter of this year ending in December 2008. A faltering economy, a global recession and a less than encouraging outlook are all on the cards.

"The economy has fallen off a cliff in the past three months, and I think that will reflect in the results of companies," says Uday Kotak, chairman and managing director of Kotak Mahindra Bank. "Unlike the rest of the world, the real sector is where most of the pain is in India — in auto, commodity and resource companies in particular, but also across all other sectors."

Much of the bad news is already out there, whether it is about inventory pile-ups in automobile factories, or about falling exports.

But be sure to expect other subtle, more nuanced changes too. For one thing, considerable uncertainty about the future persists. So corporate chief executives are likely to be careful in how they present their stories and not sound like doomsayers (the magnifying glass will come in handy here).

But we are still a growing economy as the rest of the world is shrinking, never mind that growth estimates are being downgraded all too often. So another thing that will be different is how far out into the future companies will be willing to project future performance. The estimates they provide will be for the next three quarters, but not much beyond that.

HITTING THE BRAKES: S. Gopalakrishnan of Infosys. His company has changed its earnings guidance once this year and it might do the same again

The Topline Is Flagging

Some people are not surprised at the gloomy outlook for earnings for this quarter. "For the past three quarters, except the revenues, all other indicators have actually been trending down," says Murali Krishnan, head of research at Ambit Capital, a Mumbai-based securities firm. "Just look at the EBIDTA (earnings before interest, depreciation tax and amortisation) numbers." And this quarter, he says, the topline will decline too.

The excise tax collections already indicate falling production — having fallen by 15 per cent this quarter compared to the same period last year. Sales cycles in capital goods — another good indicator — are elongating; the story in construction, metals and other commodities is all too well known: they have all been declining for a while now. What adds to the dismal outlook is that there is no single factor where there is some cheer for companies: consumption is low, input costs remain high, interest costs have shown no sign of declining, and companies have pushed whatever little pricing power they had to the limit.

The story of information technology is tied to the US economy, and there is no good news there whatsoever. "And 51 per cent of all IT spends tend to be discretionary," says Krishnan. "They are project-based, and projects can be cancelled." So is there no good news at all for any sector? "Pharmaceutical companies are a good defensive stock," according to Krishnan. That said, he points out, problems with acquisitions could still change that.

A Sliver Of A Silver Lining

The mood of the market — and not just the stockmarket — is biased towards the negative. "The quarterly numbers may not mean too much," says Shriram Iyer, head of research at Edelweiss Capital, another securities firm based in Mumbai. "We all know that the outlook is going to be negative. The trouble is that any surprising positive news will be dismissed as a one-off event, and worse-than-expected news will be taken to mean that the worst is yet to come."

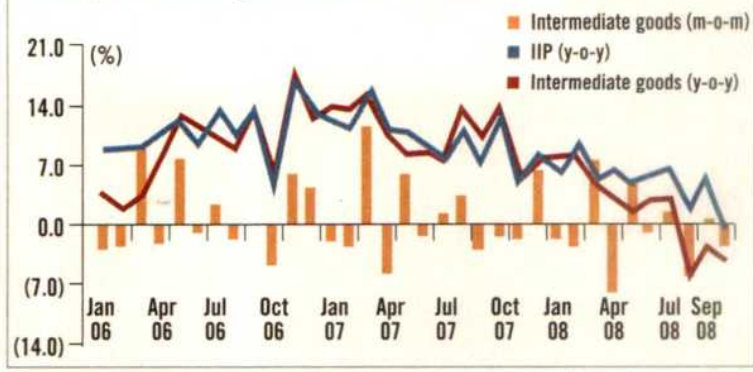
Even where there is growth, it is likely to be in the single digits: a large comedown from the 35 per cent-plus growth rates we have been getting used to. When capital goods manufacturers show robust order books, get your magnifying glass out again.

The number to look for will be the fresh addition to the order book in this year, not its size. So take a close look at investment: the expected amount of capital expenditure (capex) budgeted for this year was Rs 3,00,000 crore. In the first eight months of the financial year, the total capex is less than a third of that.

There are, however, a few industries that may offer some hope. In fast moving consumer goods — FMCG or consumer staples, for instance — the trend is likely to be secular. Depending on how you look at it, another sector that holds out a small promise of performance is financial services, mainly banks.

NO SIGNS OF RECOVERY

Slowing intermediate goods indicate further weakness in future



M-o-m: month-on-month; y-o-y: year-on-year

Source: Edelweiss estimates

"Bond yields have fallen, so banks will show investment gains from their portfolio of government securities," says Iyer. "We may also see some loan loss provisions written back, given the Reserve Bank of India's recent guidelines on regulatory treatment. Public sector banks will benefit the most here."

Here are two straws-in-the-wind tests for this quarter. Reliance Industries has always shown quarter on quarter improvement in earnings growth: will that change this quarter?

Second, Infosys has changed its earnings guidance once this year already — the only other time that happened was more than four years ago. Will it change this time, and issue another revision of earnings expectations? We hope not.

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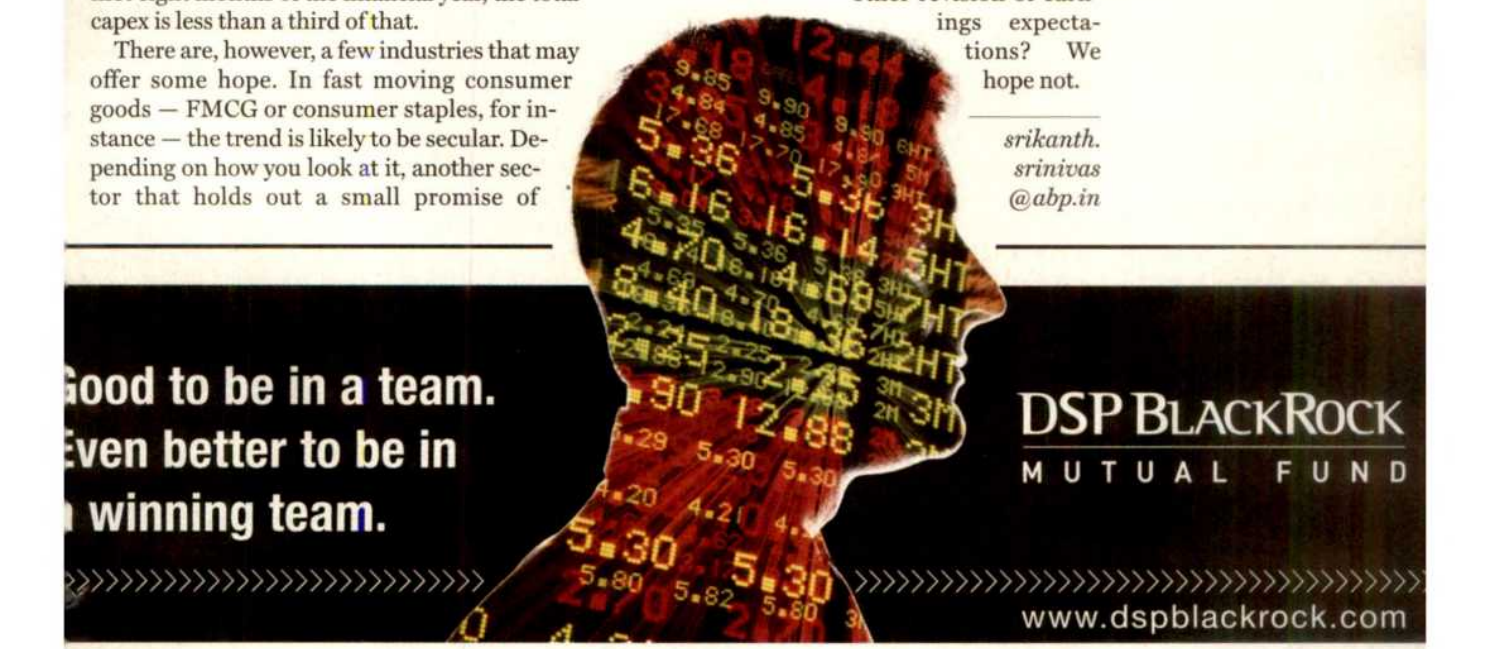

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1409:2008

Where's The Safety Net?

by M. Rajendran

Telecom operators must put security before profits

THE BRUCE WILLIS-STARRER HOLLYWOOD FLICK *Die Hard 4.0* portrayed how a maverick can play havoc with the lives of people by just controlling telecom and power networks. In real life, it was the serial blast accused terrorists who exposed the weaknesses in India's wireless networks. A recent survey by Deloitte, a financial advisory firm, on Mumbai's Wi-Fi network security shows that 88 per cent of the networks can be easily hacked and misused.

But domestic telecom operators have been so busy growing their subscriber numbers that they have paid little attention to network security at the consumer end, even though their own networks are secured by the highest possible encryption. Officials in Bharat Sanchar Nigam (BSNL), India's largest broadband service provider, acknowledge that they offer Wi-Fi routers without passwords since subscribers do not want them. "It is optional," says a BSNL officer. Bharti Airtel executives say they face the same demand as people forget passwords and do not want them. But analysts believe this option cannot be given to a consumer. "Password should not be an option," says Gautam Balakrishnan, director and principal consultant of Mumbai-based telecom analyst firm Optsoe Consultant. "It is a dangerous trend and compromises the network's security."

FREE FOR ALL: Operators have not invested enough to ensure security

The misuse of unprotected Wi-Fi networks by terrorists has, at best, forced some operators to start warning their subscribers. Bharti Airtel has launched an SMS alert to its subscribers asking them to secure their Wi-Fi network from any misuse. Others are yet to make any such move for the service they provide. Vodafone and Reliance Communications do not offer Wi-Fi service. A Tata Communications (formerly known as VSNL) spokesperson says the company has sent an advisory to its subscribers to be alert after the Ahmedabad blast since one of its subscribers, Kenneth Haywood, a US national, had not protected his Wi-Fi connection by a password.

According to Amitabh Singhal, consultant for IT and telecom at Telxess Consulting Services, 45-50 per cent of the total 4.38 million broadband connections in India are Wi-Fi enabled. "But less than 5 per cent are secure," he says. "Anyone can get into a Wi-Fi network using a laptop or any hand-held device using the router's default password."

Even the Telecom Regulatory Authority of India (Trai) has stressed the need to secure Wi-Fi systems. "The subject is in the domain of

Department of Telecommunications (DoT), but we have proactively written to them that they should ask operators to secure Wi-Fi networks and set up an inter-ministerial group to suggest preventive measures," says Nirpendra Misra, chairman of Trai.

But with the government soon planning to invite bids for broadband wireless access licences, India needs to strategically plan the security implications of the move and devise ways to tackle them. "A secure communication networks will play a pivotal role with regard to public safety," says Stephan Scholz, chief technology officer at Nokia Siemens Network. "It is, therefore, hard to overstate their importance to the global economy."

At the same time, service providers need to ensure that network deployment efforts address and prioritise security loopholes. "Beyond the technology aspects of security, WiMAX design and integration must also add a number of key security best practices into existing operational processes and policies," states a Motorola white paper on network security.

Unfortunately, telecom operators have not invested enough in either technical or design aspect of network security, feels Ravi Visvesvaraya Prasad, an independent telecom analyst with RVP Associates. Though, as Balakrishnan says, "Mobile networks in India are technically impregnable both using global system for mobile communications (GSM) and code division multiple access (CDMA) technologies. They use highest levels of encryption. But misuse by bona fide or benami users is a possibility anywhere in the world." But operators themselves have often failed to monitor subscriber identification. In India, it is easy to get a subscriber identification module (SIM) without verification or on false verification, and this has been proven time and again by security agencies. This criticism, which was earlier confined to operators using GSM, is now extended to the CDMA network operators, too. Besides air, there is an urgent need to secure communication networks on land and under the sea. The recent damage to undersea cable in the Mediterranean sea that crippled the internet is the fourth in the past one year. "If it is attacked by terrorists, financial transactions in many countries can be crippled," says Rajesh Chharia, president of Internet Service Providers Association of India.

Parliament has taken some steps to strengthen the legal framework against cyber crime with the passing of the Information Technology (Amendment) Bill, 2006. Cyber terrorists who threaten the unity, integrity, security or sovereignty of the country will get life imprisonment under the Act. "Regulatory action is critical as it is just not script kiddies and hackers, but criminals who use it as their tool," says Singhal of Telxess Consulting.

The government has also taken proactive steps such as stringent penalty for violators of telecom networks and tough legislation to prevent use of mobile phones without a unique International Mobile Equipment Identity (IMEI) number starting 5 January 2009. But these measures will remain on paper unless the telecom operators proactively implement and abide by these rules. "Subscriber addition is their top priority," says Prasad of RVP Associates. "Commercially, they are right, but there is a need for long-term vision on aspects such as security that are critical for them."

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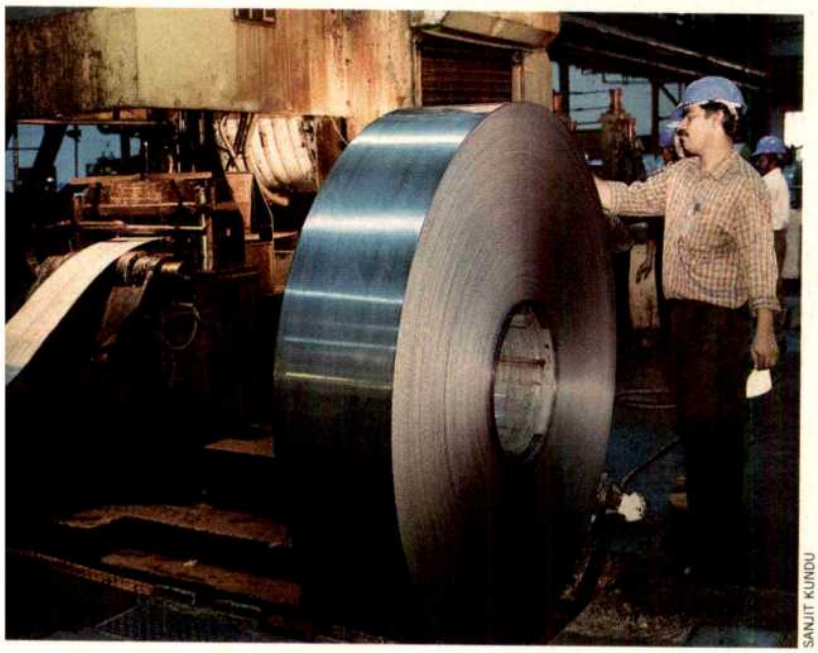
Interest(ing) Illusion

by Srikanth Srinivas



SANJIT KUNDU

HARD PRESSED: Foreign sources of finance for India Inc. have dried up

For India Inc., low policy rates will not mean a thing

IT IS A STRANGE CONTRADICTION: CENTRAL BANK policy rates are at their lowest level in decades around the world — a condition that should allow for easy money conditions — but money for India Inc. is anything but easy to come by. After aggressively raising money through issues of foreign currency convertible bonds (FCCBs) over the past three or four years, foreign sources of finance have dried up almost overnight. Blame the heightened risk perceptions of emerging markets — including India — for that.

What makes it more ironic is that the FCCBs are trading at relatively deep discounts and at very high yields: in most cases, the yields are between 25 and 35 per cent. Recently, the Reserve Bank of India (RBI) allowed Indian firms to buy back their FCCBs without limit if they used foreign resources; if rupee resources were used, the amount of FCCB buyback was limited to $50 million. The repurchase has to be made with internal accruals, not borrowed money.

True, the interest rates on these bonds are around 2 per cent, but the kicker lies elsewhere. Here's how. Seventy-four companies listed on the Bombay Stock Exchange (BSE) and that are part of the BSE 500 index have an outstanding $10.9 billion in FCCBs. "If there is no conversion into equity — a low probability event since the conversion prices are so much higher than current stock prices — there would be a redemption premium," points out Shriram Iyer, head of research at Edelweiss Capital, a Mumbai-based securities firm.

In all, these companies will have to repay about $14.4 billion. Many of them are unlikely to default. In fact, Reliance Communications announced that it had bought back about $30 million worth of FCCBs. And in the meantime, private equity firms and hedge funds have also been buying the discounted FCCBs.

The impact on the issuing companies' balance sheets is not going to be pretty, since they made no provision for the redemption premium. But that may be nothing compared to the inability of the companies to access much-needed fresh foreign capital, say analysts. What's worse, their ability to access domestic rupee capital is severely constrained too.

"Almost all companies are already hit by the slowdown," says Indranil Pan, chief economist at Kotak Mahindra Bank in Mumbai. "They have no other sources of funds other than bank credit. Banks are not going to willingly add to their own non-performing assets (NPAs) by lending to companies already in distress." In other words, bankers are likely to follow what economists have called the "lazy banking" or 3-6-3 model: borrow at 3 per cent (customer deposits) lend at 6 per cent (business loans) and be on the golf course at 3 pm.

So expect to see an increase in banks' holding of government securities; by not lending, they will also avoid potential NPA losses. There is no shortage of them either. The government announced an additional Rs 45,000 crore to its 2007-08 budgeted borrowing programme of which it has already picked up Rs 10,000 crore. "Besides, the other potential addition to government resources, the 3G spectrum auction is likely to be postponed to after the elections," says an analyst with another leading securities firm who did not wish to be identified. So there's little danger that the supply of government bonds will fall.

RBI's other measure — raising the limit on interest rates at which companies can borrow overseas from 3.5 per cent over the London Inter Bank Offer Rate (Libor) to 5 per cent —or 500 basis points — over Libor has had little impact. For India Inc., thirsty for cash to stay in business, debt capital is a desert. And low interest rates are just a mirage.

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A Tale Of Two Cities

by Gurbir Singh

TRIBHUWAN SHARMA

Past high-value land deals are pulling down Delhi developers

SOME DELHI-BASED BUILDERS HAVE BEEN seriously hit by the current financial crisis. They were caught with over-extended positions when liquidity and demand suddenly dried up. Many of them had bought land at peak price points and are now not able to service their instalments or debt payments.

Parsvnath Developers, for instance, had bought 123 acres of land from the Chandigarh Housing Board in November 2006 for Rs 821 crore. Parsvnath also agreed to part with 30 per cent of the revenue accruing from the project to the housing board, taking the cost to Rs 1,400 crore. A deal that looked attractive in 2006 is now unviable. Much of the Rs 1,000-crore IPO proceeds have also been stuck in the project.

Unitech acquired 340 acres of Noida land for Rs 1,583 crore. Hailed as the biggest land deal in 2006, it is today unable to service its debt repayment schedule. Unitech, forced to put its office headquarters in Saket in Delhi up for sale, is hoping to raise Rs 500 crore in proceeds.

Parsvnath officials, on condition of anonymity, have told *BW* that salaries have not been paid to Mumbai staffers since August, and that of its pre-crisis employee strength of 650, only 400 have been retained. A detailed questionnaire emailed to Parsvnath Chairman Pradeep Jain and Unitech Managing Director Sanjay Chandra failed to elicit any reply.

In comparison, some Mumbai builders such as C.L. Raheja Group and the Hiranandanis are better positioned to withstand the crisis because of their conservative approach of not bidding high for land and bringing supply into the market in driblets in consonance to demand.

The end of the era of acquiring expensive land banks was illustrated by the failure of the auction of the 10.4-acre Finlay Mills by the National Textile Corporation. There were only four bidders for the central Mumbai property, and compared to the base price of over Rs 1,000 crore, the highest bid by DB Realty was just Rs 405 crore. In contrast, the sale of a two-acre plot near Bandra Kurla Complex by Gujarat Ambuja to Orbit Corp fetched Rs 333 crore in March 2007.

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BURDENED: Some Delhi builders are unable to service their debt repayments

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PEOPLE TO WATCH IN 2009

BW selects the unlikely heroes who might make a diffrence in 2009

MALVINDER SINGH
ANIL KAKODKAR
NOEL N. TATA
KANIMOZHI
CHANDA KOCHHAR
CHIRANJEEVI
CAROL BROWNER
GENELIA D'SOUZA
CHETESHWAR PUJARA
THE NAXALITE

OUR icon-starved nation often gravitates towards cricket to celebrate heroics, showering cricket stars with as many unfair brickbats as undue attention. Whether cricket could continue to remain as much of a national obsession if India had great luminaries in other fields is a moot point. But the nation desperately searches for extraordinary go-getters in a sea of people, with little success.

Our most prominent political leaders are rusty in their 70s and 80s. They draw fatigue more than inspiration. Our sportsmen rarely produce a winner. Our entrepreneurs aren't backed by a robust ecosystem, so new business leaders are a trickle. Our scientific achievers are rarely in the limelight because of a tight sovereign control over science. Indians have had their fair share of success in literature, but literature has little mass appeal in a nation where one-third is still illiterate.

Hence, once a hero is forever a hero in India. But this special issue is not about those obvious heroes. The 10 names that follow were handpicked by the *BW* editorial team for their surprise element and their dark-horse status. They are young, hungry and poised to leave a lasting impact — positive or negative — on the nation's psyche. They may be mere blips on the radar right now, but their moves in 2009 could make them the icons that hero-starved Indians continue to search for to emulate in real life.

Rajeev Dubey

AMIT VERMA

Cashing In On The Downturn

By Team BW

After selling Ranbaxy at a peak, Singh can invest his billions during a trough

LESS than a decade ago, when India's top drug maker Ranbaxy Laboratories would hold its annual analysts' meet in Mumbai, Malvinder Mohan Singh would be seated, not on the dias with other Ranbaxy stalwarts such as its then CEO, Davinder Singh Brar, but in the audience, albeit the front row. After the meeting, when analysts — or reporters — surrounded him with questions, he would stick to his brief, politely deferring questions beyond his sphere of influence back to top management. It was hard to gauge that this soft-spoken young man was the scion of Ranbaxy, and not just another middle manager.

These days, Singh, 36, now chairman and CEO of Ranbaxy Laboratories, is known for his bullish statements and his propensity to cut to size reporters who question his judgement, or Ranbaxy's performance. Oh, and he doesn't own Ranbaxy any more. Singh and his family recently sold their 34.8 per cent stake to Japan's third largest drug maker Daiichi Sankyo for a breathtaking $2 billion, or Rs 10,000 crore. CEO since 2006, Singh assumes the mantle of chairman this month with a new board of directors that includes Daiichi CEO Takashi Shoda.

Singh, whose late grandfather Bhai Mohan Singh — a former moneylender who acquired Ranbaxy in the 1960s in lieu of debt owed — says he will invest his millions in his family's other businesses: healthcare and financial services, and "become leaders in these sectors".

An alumnus of the prestigious Doon School, Dehradun, and St Stephen's College, New Delhi, and an MBA from Fuqua School of Business at Duke University, North Carolina, Singh is well-built and dapper with a penchant for photography, acquired from his late father Parvinder, the former chairman of Ranbaxy who envisioned the company as a global pharma multinational. He is also an avid art collector — his Religare Arts Initiative aims to "bring art closer to people through understanding and appreciation", according to its website.

The global financial crisis has taken its toll on businesses across sectors, but as valuations come down, it may also have created unprecedented investment opportunities for many. Something Singh has taken note of. "When the downturn gets over, we want to be ready," says this teetotaller, vegetarian and follower of the Radha Soami Satsang Beas, a spiritual sect in Punjab in which his family is deeply involved.

Singh wants to transform his financial services group Religare into a bank, and make major inroads into healthcare through hospitals and pharmacy retail. Religare and Fortis, which already operates a network of hospitals, are owned jointly by Malvinder and younger brother Shivinder. Singh also does not rule out investing in private equity in other sectors.

Singh still runs Ranbaxy, which faces a US ban on its key Indian manufacturing facilities that export off-patent drugs to that market. "They need to work really hard to get the FDA to lift that ban," says one Ranbaxy investor in Mumbai, pointing out that at least one major generic drug launch in 2009 in the US could be jeopardised if the ban stretches on.

Clearly, an eventful year ahead for Singh.

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Malvinder Singh

Industrialist

With $2 billion in the bank at a time when cash is king, Singh could become a true-blue mogul — if he plays his cards right

The Critical Man

by Muthukumar K.

This low-profile scientist will shepherd in the era of nuclear power

Anil Kakodkar

Chairman of the Department of Atomic Energy

Anil Kakodkar wants to show how indigenous technology can spur nuclear power generation

"I WANT to make electricity cheaper than [what is produced by] coal-based power plants," says Anil Kakodkar, the man spearheading India's nuclear programme. Expectations are certainly high from this mechanical engineer from VJTI (Veermata Jijabai Technological Institute) Mumbai.

The chairman of the Atomic Energy Commission and secretary in the Department of Atomic Energy, has proved his mettle earlier, in several capacities. At Bhabha Atomic Research Centre, by leading the indigenous development of pressurised heavy water reactor technology and later as a member of the core team during the nuclear tests of 1974 and 1998.

This time his brief is even more challenging. India has a target to generate 36,000 MW of nuclear power — that could cost upwards of Rs 2 lakh crore — by 2030. The aim is to increase the share of nuclear energy in the country's energy basket from 3 per cent at present to 8.5 per cent by 2032 and 16.5 per cent by 2052. India's much-hyped civil nuclear deal with the US and bilateral deals with France and Russia could help the country realise part of that dream.

Kakodkar is depending on the 500-MW fast-breeder heavy water reactor, expected to be operational by 2011, to demonstrate the technological capability of thorium-fuelled reactors. "While the capital costs are high, the variable costs aren't much and could be reduced," he says. For that, he has to first establish the commercial viability of indigenous thorium-based heavy water reactors over uranium-based light water nuclear reactors — amid hectic lobbying in favour of the latter by foreign companies.

"He is a good leader and a sharp scientist," says M. Krishnamurthy, associate professor of Department of Nuclear and Atomic Physics at the Tata Institute of Fundamental Research. His effort to spur research on thorium-fuelled nuclear reactors is unmatched, he adds.

But the follow-up on the IGA (inter-governmental agreement) for nuclear fuel supplies signed with the US, France and Russia would be crucial for Kakodkar. He will be meeting US companies in early 2009 to negotiate a guarantee from vendors for uninterrupted and lifetime supply of uranium.

Not taking any chances with the safety aspect of nuclear reactors, Kakodkar says, "We would not accept anything (technology, components) which is not certified by the country of origin and its atomic regulatory board," he says.

On the role of domestic industry, Kakodkar is clear that nuclear technology should get assimilated by a domestic programme as it reduces costs and addresses possible disruptions. His mission could contribute significantly to the two most serious concerns of globalised India — power shortage and carbon emissions.

The first step to realising that dream, however, is to get manpower in place. "Every nuclear reactor requires 300-400 people requiring scientists at various levels," he says. Given his capacities on the boards of governors in premier institutes such as IIT and VJTI, Mumbai, he should be able to get that done. For now, the only words that exist in Kakodkar's dictionary are implementation and operationalisation.

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The NEXT STEP "We don't want an Enron"

Even though the Indo-US nuclear deal went through the necessary clearances months ago, the next moves — importing nuclear fuel and allowing private sector into nuclear energy — remain enveloped in mystery. Meanwhile, anxiety over sustainability of the indigenous thorium-based nuclear programme grows. BW's Rajeev Dubey spoke to Department of Atomic Energy Chairman Anil Kakodkar for answers. Excerpts:

Q: Our thorium programme has been in the making for 30 years. Naysayers say it could be another 30 years before we see our first reactor. Optimists believe we will have one in 8-10 years. What's the exact status?
A: It's a sequential process and we have to account for a sequential gestation period. On technology development, there has been considerable progress. Our 500-MWe fast-breeder reactor will get completed in 2010-11. Work on advanced heavy water reactor is fairly advanced. For sure, we'll have our thorium reactor in 8-10 years, but it could be earlier. We will be in a position to start building our first (thorium) reactor in mid-2009. It will be six to six-and-a-half years for project completion.

Q: When will private sector or foreign companies be allowed?
A: Any entity should have experience of Indian conditions. I don't want to get into an Enron kind of situation. You can't lock up a nuclear plant and go home. Foreign companies are unlikely to be allowed, as that is not a solution. People can form JV with Nuclear Power Corporation of India (NPCIL), with NPCIL holding a majority stake.

Q: So we are not making the necessary changes in the Atomic Energy Act.
A: This can be done within the framework of present Atomic Energy Act. Allowing private sector is a separate process. At this moment, everything has to go through NPCIL. They can pick NPCIL as their partner. All this can be done without change in the Act. All the Act requires is that 51 per cent should be with the government company.

Q: Did we have to appease Russia with the $10-billion contract before placing orders with the West?
A: We've been talking with Russia, France and the US — all of them. There's an IGA (inter-governmental agreement) with the US and France. Now, there's an IGA with Russia. The agreement was negotiated quite some time back.

Q: Has India imported any fuel under the Indo-US deal?
A: Not yet. It's a matter of some months, a couple of months. There's a certain contract-making and (giving) time for supply. It should happen soon.

Q: Some nuclear scientists believe that since the West will supply uranium-based light water reactors, the deal has sounded the death knell for India's own heavy water reactor programme.
A: I would view it the other way. Our priority and prime objective remains the three-stage nuclear power generation programme eventually using thorium fuel. Worldwide they don't feel uranium shortage like us. But in future they too will feel the shortage. It is only for us to do this before others. If you look at our power requirement by 2050, and you add up all the capacity you can set up with all the fuel available, we'll still be short by what will be equivalent to 1 billion tonnes of coal consumption annually. If we set up 40,000 MW of imported reactors, we will probably bridge that gap. But we have to remain competitive and our programme should produce electricity at commercially viable rates.

Q: Is there pressure from the uranium lobby over thorium options?
A: Their commercial transactions are all for uranium systems, but there is no pressure from uranium (lobby). In fact, there's a lot of curiosity in the world about our thorium programme.

The Perfect Stranger

by Vishal Krishna

SATHEESH NAIR

Another Tata could help steer the fortunes of India's oldest business group

Noel N. Tata

Managing Director, Trent

A possible successor to half-brother Ratan, this Tata is poised to take on a greater role in the venerable group

IT could be argued that Noel Tata, 52, is following perfectly in his older half-brother's footsteps. Like Ratan, Noel is shy to the point of being a media recluse. Like the current head of the Tata Group, Noel is humble, spending much of his time on the shop floor (pun intended) conversing with shoppers. And like Ratan, who was a potent but under-rated performer before stepping into the charismatic J.R.D. Tata's shoes, Noel has quietly turned Trent, the retail arm of the Tata Group, into one of the country's most successful retail chains. At a time when other stores are struggling to win customer trust and profits, and are slowing down their plans, Noel has built a trusted and profitable company — in 2007-08, Trent had reported a profit of Rs 32 crore. By expanding watchfully in recent years when real estate prices were skyrocketing, Noel is now preparing to double Trent's stores to 100 by the end of 2009. Noel has also created his own asset development and management company called Trexa, which will own property and lease space to other retailers. Not one to forget the consumer, Noel wants tier-2 consumers to buy aspirational brands, and has already launched a fashion store for such a segment called 'Fashion Yatra' in Kalyan, a greater suburb of Mumbai. All this has drawn attention, and whispers have since been circulating in India Inc. about the role this 'other Tata' (a title once afixed to Noel's father, Naval) will play in the Tata group. A graduate of Sussex University with an MBA from Insead in Fountainbleau, Paris, Noel, like his mother Simone who founded Lakme, likes to live his business and constantly travels across the world studying retail business models and formats. One result — Trent, which began in 1999, focused exclusively on the private label business, something other retailers are only doing now. Tata is also known to value and respect suppliers, but being attuned to the soft aside of business does not mean Tata is oblivious to the hardcore realities of retailing. Like Ratan Tata, Noel has his eye for the finer details of business and in a meeting with *BW* just after the Tesco tie-up was announced, Tata insisted that "hypermarket retailing is driven by strong supply chain efficiencies". This managerial perspectives is what drives some to predict the younger Tata is now ready to take on a larger role in the Tata Group. The fact that Noel is married to the daughter of Pallonji Shapoorji Mistry, who owns 15 per cent of Tata Sons, also drives such speculation.

His critics, and they are not few, say Noel lacks the experience and hardnosed training needed to prepare him for real leadership. Indeed, Ratan Tata has made no overt move to admit Noel into his inner circle. Doubts also persist about Noel's own motivation, and whether he has the inner drive to steer the Tata group.

But Noel is not a man in a hurry. While the world speculates, Noel maintains his intriguing silence on all matters save those connected to Trent. He likes to work at his own pace and is not an authoritarian or demanding personality. But it is precisely these qualities, which are so much in line with the Tata ethos, that make the younger Tata such an attractive replacement to the illustrious Ratan N. Tata. Surely a man to watch.

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The Politics Of Poetry

by M. Rajendran

TRIBHUWAN SHARMA

Kanimozhi

Member of Parliament

DMK patriarch M. Karunanidhi's sons grab the headlines, but his daughter is becoming the dark horse of Tamil Nadu politics

Karunanidhi's low-profile poet daughter is becoming a player in New Delhi

I listened to my father.
I went to school,
combed my hair,
avoided a few friends,
wore a shirt,
brushed my teeth,
obeyed,
got married:
Now I am waiting.
My chance will come.

by Kanimozhi
(translation of *Karuvarai Vasanai*)

AFTER she became a Rajya Sabha member in 2007, Kanimozhi, the 40-year-old daughter of Dravida Munnetra Kazhagam (DMK) patriarch M. Karunanidhi, was expected to be the face of the DMK in New Delhi. For years, she kept away from dynastic politics, letting her half-brother Stalin be projected as Karunanidhi's successor while senior party leaders, such as T.R. Baalu, minister for shipping and road transport, and A. Raja, minister of telecom, grabbed the limelight. As a well-known poet and one of the pioneers of *puthukavithai* or new wave Tamil poetry, she was content to be her father's (a prolific writer himself) literary heir.

All this could change with the 2009 general elections. While the chances of DMK sending back 16 MPs to Lok Sabha six months from now look bleak, Kanimozhi, who will remain a Rajya Sabha member, could become the DMK's face in New Delhi. Veteran commentator Cho Ramaswamy says that while it is "unlikely" that Kanimozhi will become the party leader, a post currently expected to pass to one of her half-brothers Stalin and Azhagiri, he says "the party has found a good orator, communicator and a young face in her."

Kanimozhi routinely refutes that idea. "They don't need someone as inexperienced as me to become the face of DMK," she said soon after joining Parliament. But obvious care and passion with which this one-time journalist who has worked as a sub-editor for *The Hindu* and hosted shows for Sun TV, owned by her now estranged cousin, Kalanidhi Maran, crafted and delivered her maiden Parliament speech impressed her peers. "She is someone of substance," a senior Congressman maintains.

With Maran, once the party's suave, modern face now given the boot by grand-uncle Karunanidhi, Kanimozhi is best suited to take his place. "I can look at things differently — not just based on ideology or a path decided by leaders," she says. "There have been incidents at party meetings where I have argued with my father and brothers not as family members but senior party leaders on matters on which I differ."

Women's issues are close to her heart, winning her favour with many voters in progressive Tamil Nadu. But she underplays her growing appeal by insisting she wants no short-cuts to success. Instead, Kani, as she is known to friends, says she recognises the importance of travelling the full political journey as her father and other leaders have done.

Absent from most Delhi Page 3 parties and political high teas, Kanimozhi is fond of asserting that she does not need to win every little battle to be a successful politician. Read that to mean she is being smart enough to want to stay away from petty party politics. "I am here (in Delhi) not to push them (senior DMK leaders) or sideline anybody," she says. "I look up to them for guidance."

But Kanimozhi may not be able to stay away from the limelight for long. Despite her vehemently denying she harbours any ambitions of occupying a ministerial berth at the Centre, party and political compulsions look certain to bestow the same on her in 2009.

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SATHEESH NAIR

Banking On Optimism

by Raghu Mohan

ICICI Bank's new chief wants to alter the face of modern Indian banking

IN the male-dominated world of Indian financial institutions, women at the helm are a rarity. Chanda Kochhar's taking over as the CEO of ICICI Bank, India's largest private bank, in May 2009, could well be epochal. The only others who led Indian banks — Ranjana Kumar, who headed Indian Bank, and Homai Daruwalla, who heads Central Bank of India — are public sector bankers.

Kochhar's elevation to the top slot was not entirely unexpected, but she had competition. Her predecessor K.V. Kamath created a powerful pool of leaders, such as Madhabi Puri Buch and Sanjoy Chatterjee, both executive directors. Kochhar emerged on top, but is now in an unenviable position. There have been murmurs that ICICI Bank's dud loans, both corporate and retail, are increasing even as the growth of the loan portfolio is slowing down. "Kochhar's challenge will be to steer the bank through a period of financial turbulence, create momentum and put some life into its stock price," says Viren Mehta, director at Ernst & Young. The lady herself is undaunted. "If the environment throws up challenges, we would take cautious steps," she says. "At the same time, we are optimistic because the long-term scenario will bring a whole lot of opportunities."

Kochhar adds strength to a new trend of women grabbing top slots in finance. A few months ago, Kalpana Morparia took over as country head at JP Morgan; Meera Sanyal began her stint as country head of Royal Bank of Scotland a year ago; and Naina Lal Kidwai made it to the top at HSBC in India in 2006. But Kochhar's job may be tougher given the aspirations attached with the ICICI brand name, a brand that Kamath transformed into a symbol of India's EMI revolution.

Kochhar appears the right person to take that legacy forward. Joining ICICI in 1984 as a management trainee, she became a key member of the team that built ICICI, the commercial bank, and then scripted its retail success story. In April 2001, she was made executive director of retail banking and, five years later, deputy managing director of the bank. Her experience straddles the corporate, retail and global banking wings, and gives her a 360-degree view of the bank. The icing: she has a calm and unhurried style. "She is unflappable even at times of a serious crisis like the one we had recently on rumours regarding the financial health of the bank," says Ram Kumar K., group head of human resources at ICICI Bank.

Going forward, "Consolidation of business will be a key area for Kochhar," feels A.K. Purwar, former chairman of State Bank of India. "It (the bank) has been growing at a fast rate. Banking is a conservative business and I pray to God that she finds the strength to steer ICICI through this tough period."

But Kochhar is ready: "We are adjusting ourselves to the change in the environment. Next year, growth will be definitely higher as lower interest rates will be a catalyst to restart investment activity." According to Enam Research, ICICI Bank's focus on low-cost current and savings accounts may also improve its margins.

Will the fast-paced ICICI Bank now become conservative? "I think both adventurism or too much of conservatism are two extremes, and I would like to believe I would operate somewhere in between," says Kochhar. Sure looks like the mother of two can strike the right balance.

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Chanda Kochhar

Banker

She will have to find new ways to grow — safely. Her performance could either take Indian banking into the global league or cripple it

A Star's New Orbit

by Sreevalsan Menon

A new actor is catapulting from the movie studio to the political stage

Chiranjeevi

Actor-politician

Can the Telugu superstar's political foray match up to N.T. Rama Rao's, and change the face of Andhra Pradesh politics?

"I DON'T understand politics, but I can understand the suffering of people," were the words of film star Chiranjeevi during the 26 August launch of his Praja Rajyam Party (PRP) at Tirupati, where he drew a million-strong crowd. With elections in the state and at the Centre round the corner, Chiranjeevi is counting on popular dissatisfaction to jump from movie stardom to political eminence. "People are not happy," he says. "My political party is the result of their deep-felt feelings." Changing political equations in Andhra Pradesh could help his cause. Since the 2004 elections, the ruling Congress Party has gifted the Left to the Telugu Desam Party (TDP), while another ex-partner, a depleted Telangana Rashtriya Samiti (TRS) and the BJP are looking for crutches, something the actor is well aware of. "Talks are on with friendly parties," he says.

It is inevitable that Chiranjeevi's entry into politics is being compared to the late N.T. Rama Rao's, another star actor who announced his political debut at Tirupati. NTR, though, went on to become the state's chief minister; Chiranjeevi, 53, the son of a police constable, is just starting out. A BCom graduate, Chiranjeevi moved to Chennai in 1977 for a career in films. His first big hit, *Khaidi* (Prisoner), came in 1982. Thereafter, with the right blend of righteousness and daredevilry, he brought action and melodrama to Telugu films, and became one of India's highest paid actors.

On the political stage, while he backs the demand for Telengana, he will have to deal with issues such as the plight of farmers and the backward classes, which breed Naxal violence. "I am against giving farming land to SEZs," he says. "But I am not against globalisation."

Rival political parties are dismissive. Even so, TDP is launching another well-known actor, Balakrishna. AICC General Secretary P. Sudhakar Reddy says, "We can withstand ripples created by many such political entities that came into existence and perished thereafter." Observers forecast just 35-50 legislative assembly seats and around five-six Lok Sabha seats for PRP. Chiranjeevi, however, is confident: "Andhra people have always given definite power to those towards whom they would tilt."

History bears him out. In 1982, NTR rode his immense popularity to a landslide assembly victory, within nine months of TDP's launch. In the 2004 elections, Congress managed 185 seats with around 38.56 per cent of the total votes but TDP, with a close 37.59 per cent votes, could muster only 47 seats. More significantly, with 6 per cent votes, TRS secured 26 seats, underlining the fact that even a marginal swing can create a disproportionate impact.

There is one NTR legacy that Chiranjeevi can do without. NTR was decimated in a power struggle by son-in-law N. Chandrababu Naidu. In PRP, Chiranjeevi's brothers Nagendra Babu and Pavan Kalyan, and brother-in-law Allu Aravind hold key positions. "In India, family plays a key role in our lives; they are our strength," says Chiranjeevi. "If Arvind or Kalyan are there with me, it's because of their own personal abilities."

NTR was worshipped, Chiranjeevi is just adored. The latter would do well to learn from his predecessor's mistakes.

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Queen Of Green

by Pierre Mario Fitter

REUTERS

A passionate ecologist will now shape climate change politics

Carol Browner

Assistant to the US President on climate change

Could sign the US up for emissions reductions. That could boost the creation of new 'clean' industries

IF there needs to be proof that US President-elect Barack Obama intends to keep campaign promises and bring meaningful change, one need look no further than Carol Browner. Obama's new assistant for energy and climate change is a confirmed and respected ecologist and a doughty fighter; just the person who could take on the interest groups likely to try and prevent the US from embracing Obama's vision of cutting carbon emissions by 80 per cent by 2050.

Obama's baptising of Browner as his "climate czar" indicates the power she will wield in his administration. Consider her portfolio: Browner, 53, will advise Obama on his energy plans, such as his intent to spend $150 billion on clean energy projects over the next 10 years. That will, Obama says, create five million new jobs and alter the oil politics of the world, particularly in Russia and the Middle East.

Browner will also be tasked with convincing US industries to act on environmental concerns, a role she has previously played as head of the EPA (Environmental Protection Agency) during Bill Clinton's two terms, and before that as head of Florida state environmental agency. This time around, Browner's task is complicated by the economic recession, which is making companies more interested in cutting costs than emissions. But the manner in which she got businesses to agree to new environmental laws in her previous *avataars* is reputedly making CEOs nervous, particularly in Detroit. The US auto industry has traditionally made cars that are less fuel efficient and more polluting than their European and Japanese rivals. But with the industry now pleading with Washington for a bailout, Browner could make any help hinge on Detroit making more ecological cars.

Browner underplays such concerns by saying that she learnt how to balance economic realities with political idealism in the 1980s, when she was Senator Al Gore's legislative director. Also, in her last job, Browner served as principal at former US Secretary of State Madeleine Albright's investment firm Albright Capital Management, advising on investments in environmental protection, energy conservation and climate change. That taught her how to engage with business on environmental issues and she has fans in the corporate world. "She has a proven track record and understands the role that government, NGOs and business can play to drive meaningful solutions on this critical issue," Lee Scott, president and CEO of Wal-Mart, said in a statement following Browner's appointment.

Indian CEOs may have more mixed feelings. They, and New Delhi, have resisted global pressure to cut emissions, partly by pointing to the US's failure to do the same. If Browner signs the US up for emission cuts it will become increasingly untenable for India and China — now the world's fourth-largest and largest polluters, respectively — to demand the right to keep polluting. The impact on domestic industries, such as autos, steel and power will be serious. On the other hand, Browner's push to create new energy sources could throw open new commercial possibilites that could propel India's and the world's economic growth anew.

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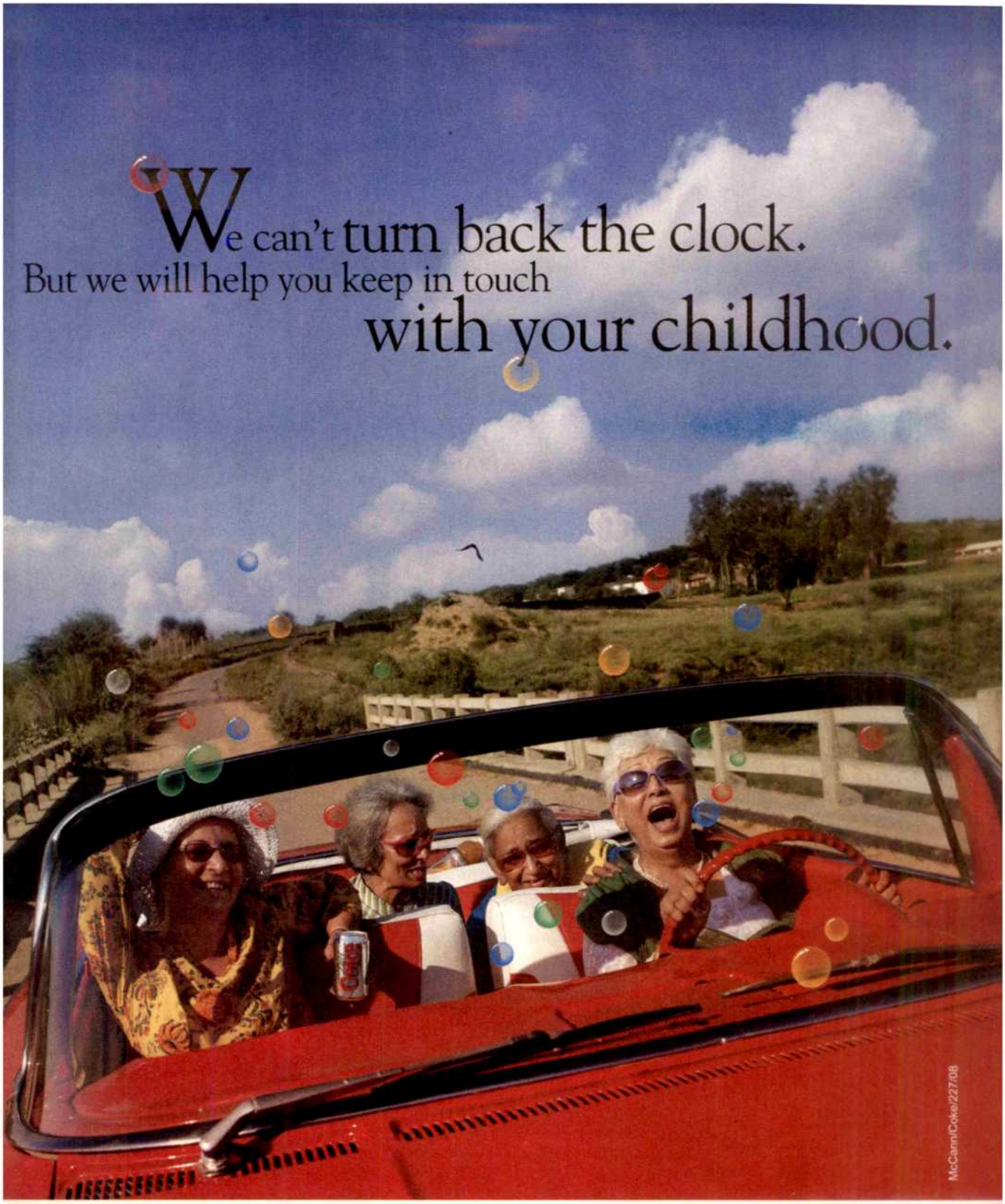

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An Ingenue Is Born

by Mahul Brahma

A wholesome beauty is captivating raunch-obsessed Bollywood

AT 21, she is poised to follow in the footsteps of Hema Malini and Rekha — a southern beauty set to make it in Bollywood. The cloyingly sweet Genelia D'Souza may have made Telugu and Tamil blockbusters and been awarded the Best Female Actress (Telugu) for *Bommarillu* (A Toy House) at the 2006 Filmfare awards. But when she steps out of her car it is "Aditi" the crowd screams, the name of the character Genelia played in *Jaane Tu Ya Jaane Na*, one of the biggest Hindi film hits of 2008. "The success has brought about love and affection of people," says D'Souza, modestly neglecting to mention the national recognition she is now blessed with. It wasn't always so. D'Souza's 2003 Bollywood debut, *Tujhe Meri Kasam*, with Riteish Deshmukh, sank without a trace. But now, she is shooting with A-list directors — with Aneez Bazmee's for *It's My Life*, a remake of *Bommarillu*, opposite Harman Baweja; with Abbas Mustan in *Life Partner* with Fardeen Khan; and with David Dhawan's *Hook Ya Crook* opposite John Abraham. Little wonder, then, that D'Souza drops her trademark modesty to say the year 2009 will be "a rocking one".

"She has a good future in Bollywood," says trade analyst Komal Nahta. "She is a natural actress and reminds me of Kajol and Juhi (Chawla). But others like Katrina Kaif and Priyanka Chopra have a higher glamour quotient. And we are yet to see how she dances."

But the capricious winds of popular appeal seem to be blowing away from plastic beauties and *faux* raunch, and people are eager for *verite* performers with genuine screen appeal. That D'Souza has in oodles, and what won her modelling assignments for Parker pens with Amitabh Bachchan and for Fair & Lovely as soon as she was out of the Apostolic Carmel High School in Mumbai. The campaigns then got her two films — *Boys* (Tamil) and *Satyam* (Telugu) — and over the next couple of years D'Souza did several more films, and also Mani Ratnam's much talked-about stage show *Netru, Indru, Naalai* (*Yesterday, Today, Tomorrow*). "I am glad that I got fantastic roles," says D'Souza, betraying no remorse at those films having tagged her as a 'south Indian' actress.

That has been a hard tag to shake off, and film distributor Amod Mehra says it is now time for D'Souza to choose between Bollywood and the South. "She has a lot of potential to take on her contemporaries here," he says. "But unlike her, they are all focused on Bollywood, and so they have an edge over her."

Indeed, competitors who sport famous filmi surnames and Miss World titles loom large over D'Souza, admits her mother Jeanette, who gave up her job as a managing director with a pharma MNC in 2004 to help Genelia with her career. "We are non-filmy, non-Page 3 people," Jeanette says. "Genelia's father Neil is a senior official with TCS. She doesn't have a filmi godfather, a manager or even a secretary. She is a simple girl."

But there is something endearing about that and as top directors gravitate towards real talent performing meaningful roles, D'Souza might be the breath of fresh air that brings a new ethos and style to Bollywood in 2009.

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Genelia D'Souza

Actor

Star directors Anees Bazmee, David Dhawan and Abbas Mustan are betting this southern belle will be India's next Dream Girl

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Triple Ton Dealer

by Feroz Ahmed

Cheteshwar Pujara could well be Indian cricket's next big thing

Cheteshwar Pujara

Cricket player

His prodigious run-getting abilities and classical style are leading selectors and experts to talk of this wonder kid as India's third 'Little Master'

FEW batsmen score a triple century in their entire career. When somebody scores three in three weeks, it is hard not to notice, whatever the grade of cricket and whatever the opposition. Cheteshwar Pujara, the 20-year-old batting phenomenon from Saurashtra, has given a fine option to Indian selectors at a time when India's batting stalwarts are on their way to retirement.

In fact, Pujara got his first triple ton when he was only 13, scoring 306 not out in an under-14 tournament against Baroda in 2001. Since then, he has done other things of note: he was Man of the Tournament at the 2006 Under-19 World Cup, aggregating 349 runs; he scored over 800 runs in the 2007-08 Ranji Trophy; and this season he has scored two triple centuries in the under-22 C.K. Nayadu Trophy — 386 against Maharashtra and 309 against Mumbai — and one in Ranji Trophy — 302 not out against Orissa. He has also got big hundreds against top domestic teams with international bowlers in their ranks — 189 against Punjab and 176 against Mumbai.

Indian selectors are already under immense public pressure to let loose the wonder kid in the international arena. National selection committee Chairman K. Srikkanth has acknowledged him as a great prospect.

Trained in the classical mould by his father and coach, Arvind, himself a former Saurashtra cricketer, Pujara's life-changing break came when the Indian Premier League (IPL) franchise Kolkata Knight Riders (KKR) hired him. Though he did not get a game in the tournament, he got an opportunity to share the dressing room with international stalwarts such as Ricky Ponting and Saurav Ganguly. "I listened, watched and learnt in the dressing room," he says. The exposure to the hell-for-leather Twenty20 cricket helped him add gears to his batting. He says his hitting rate has improved considerably, which has allowed him to score big hundreds in quick time to set up wins for his teams. "Pujara has a great work ethic and he is a tremendous prospect," says KKR Team Director Joy Bhattacharya.

Looking at his potential, Nike and Pepsi have already signed up Pujara, who is being marketed by Mindscapes Maestros, a firm allegedly backed by Indian cricket team captain M.S. Dhoni.

Indian cricket lovers are waiting to see whether Pujara can take his stupendous run-making ability to international cricket. In the past, many domestic cricket tigers have come a cropper at the highest level — Ashok Mankad, Brijesh Patel, Ashok Malhotra. "The pace and the skills of the international bowlers are quite different," Pujara acknowledges, and he trains for hostile fast bowling using a bowling machine. "Also, I treat the games against strong teams such as Mumbai and Delhi as practice for the next level," he says. His failure in both innings against Delhi in a recent Ranji match disappointed him, as well as his well wishers, hugely.

With Indian batsmen routinely doing well in home games against foreign teams, Pujara can hope for a break when India goes down under to New Zealand in March 2009. It will be best for him to prove himself in away international games first.

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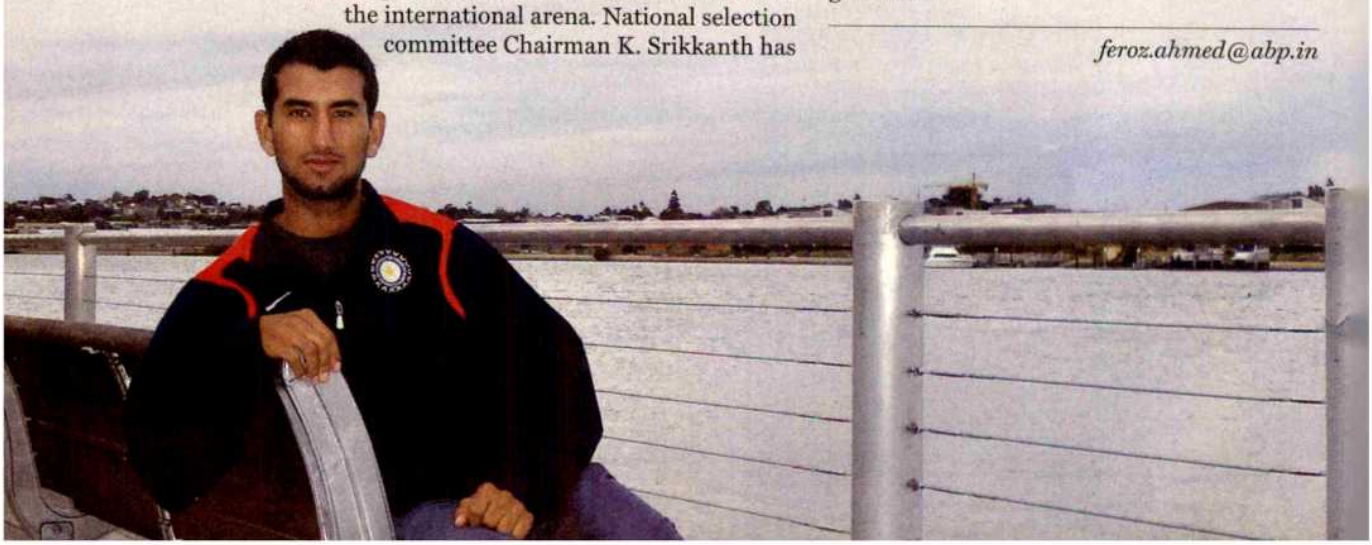

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Mao's Men

by Gurbir Singh

Worsening governance is pushing more peasants towards revolt

FORMER Prime Minister V.P. Singh said recently before he died: "If I was 20 again, I would have joined the Naxalites." Writer Arundhati Roy is also counted among its supporters. In a year that is likely to see continuing economic downturn and job losses, growing discontent and lack of a suitable alternative could make Naxalism romantic and attractive once again.

The Naxalite

PWG, MCC, CPI-ML (Party Unity)

The failure of official land reform and social justice initiatives is fuelling the Maoist-Naxal movement

In November 2005, hundreds of Naxalites stormed the small Bihar town of Jehanabad, broke open the gates of a district jail and set free over 300 of their comrades. Now, they are getting even bolder. This June, a large posse of the Greyhounds, Andhra Pradesh's anti-Naxalite unit, was trapped and eliminated on the Andhra-Orissa border when it was, ironically, in hot pursuit of Naxalite guerrillas. Attempting to take a short cut for their combing operation, the unit took a boat to cross the Chitrakonda reservoir. The guerrillas, who had been shadowing them, caught them napping, and in the sustained firing 38 men met a watery grave. This incident caught the media's eye for its daredevilry, but scores of such armed encounters in remote areas have gone unreported.

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Naxalite guerrillas have come a long way from the days of Naxalbari when they seized land and eliminated landlords with bows and arrows in this remote West Bengal village in 1967. In 1972, soon after the death of Naxalite rebel leader Charu Mazumdar, who called for the "annihilation of class enemies", the movement collapsed. Today, built on the support of impoverished tribals and landless labourers, the Naxalite armed rebellion has spread to 180 districts and 13 states. A parallel government in pockets has been set up along a vast swathe of forests from the Andhra-Maharashtra border, through Chhattisgarh and Orissa, to Jharkhand, Bihar and the Nepal border.

"The successful implementation of the dual line of the Unity Congress of the revolutionary party in 2006 — the call to wage a war on globalisation and on Hindutva forces — has made the movement popular," says Vara Vara Rao, Andhra Pradesh's popular writer and poet.

The endless splits that plagued the Naxalite parties have given way to consolidation. Various groups, including the People's War Group (PWG), CPI-ML (Party Unity) and the Maoist Communist Centre (MCC) have merged into the Communist Party of India (Maoist). The leadership has changed from the middle-class intellectuals and university scholars to the more committed locals. Ganapathy, secretary of the Maoist Party, is a deliberately understated personality. The events in Nepal, where a Maoist armed struggle has transformed into an electoral victory, could give their Indian counterparts a shot in the arm. Besides the ideological affinity, the porous border with Nepal provides Indian Maoists a congenial hinterland.

For businesses hoping to relocate to remote centres for cheap labour, tax breaks and proximity to raw resources, factoring in the Naxalite threat has become a must. Acquisition of land for the ArcelorMittal plant in Jharkhand has been delayed as tribals, supported by Naxalites, have chased away surveyors. Similarly in Vizianagram, a rich mining belt, industrial development is stalled due to ground level resistance.

Even Prime Minister Manmohan Singh agrees the Maoist rebels are "the biggest internal security threat". Analysts see the growth of the rebels as a sign of administration failure. Says political expert Rajat Kajur in his paper for the Institute of Peace and Conflict Studies: "No government was able to follow a uniform approach in dealing with Naxalism, and it helped the movement grow."

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It's Politics, Stupid

by bill emmott

HOW BAD DO YOU THINK THE RECESSION IS GOING to be? How long will it last? Those are the two most common questions I have been hearing recently, as we approach the end of a turbulent year. The only truthful answer is that we don't know. There is, however, a third, related question: What will have the biggest impact on how bad the recession will be and how long it will last? Most people expect some kind of technical answer, to do with fiscal policy, the amount of capital governments invest in banks, or the monetary policies of central banks. But, important although those policies are, the right answer is not technical. It is that the length and depth of this recession probably depends most on politics and on fraud.

The length and depth of this recession probably depends more on politics and on fraud, not fiscal policies alone

A recession, especially one that is global in nature, is a time of great social stress. Unemployment rises, incomes fall, export earnings collapse, savings are lost, companies face big losses or even bankruptcy. That places a huge amount of pressure on politicians and government officials: some will be blamed for the trouble, all will be expected to do something to cure it. The big unknown, however, is how severe is the blame, and how will the political leaders react.

During the 1997-98 financial crisis that originated in East Asia, the harshest and longest economic pains were felt in Indonesia. This was because the long-time dictator of that country, Suharto, was blamed for the crisis and was overthrown by a popular revolution. That eventually led to today's fairly stable Indonesian democracy, but the years in between saw civil war, separatist conflicts and some terrorism by Islamic fundamentalists. The other country where the political effects were significant was Russia, where a collapse in the oil price in 1998 forced the government to default on its debts, paving the way for the takeover of power by Vladimir Putin and his fellow ex-KGB spies.

Where might such instability now occur? Russia is again a leading candidate, with its export earnings collapsing with the price of oil and gas. But other oil exporters could also be candidates, such as Iran, Venezuela and even some countries of the Arab Gulf. Another — admittedly less likely — source of instability could be one of the world's biggest oil consumers, China, for the slowing economy there is leading to rising unemployment.

Political instability would matter because it could produce disruptive, nationalist policies designed to protect local companies or jobs at the expense of global trade. That is exactly what happened in the 1930s, when European and Asian countries retaliated against protectionist policies in the US, turning recession into a long depression.

Protectionism and nationalism are again big dangers not only in unstable dictatorships but also in the rich, democratic world. If recession is to be fairly short, we need open world trade to allow and encourage countries with money to buy the exports of others. The pressure to subsidise big companies will lead to measures that are in reality efforts to distort trade and to transfer pain to other countries.

This could all be avoided if savers and investors regain the confidence to buy shares and bonds, and if banks regain the confidence to lend money again. At present, too many people in countries all over the world are scared of what might happen, so they are holding money in cash and low-risk securities. That is sensible for them, but it means that the economy is not receiving the capital it needs to create new companies, factories and jobs. Consequently, governments are being forced to provide that capital.

In many recessions, confidence returns in a natural way once people see that disaster has not happened, and once some begin to think that business opportunities are so cheap that they have the chance to make a lot of money during a recovery. So investment revives and recovery does happen. But this is where the second issue, fraud, comes in.

The affair of Bernie Madoff, the seemingly respectable New York money manager who has defrauded his investors of up to $50 billion, is extremely damaging to confidence. If savers, whether individuals or big institutions such as banks and pension funds, come to think that every money manager might be another Madoff, then they will keep their money in cash and government bonds for much longer. That is what happened in Japan after its 1990s financial crash: private investors felt they had been robbed, and so stayed away from equities even when interest rates were zero. If more frauds are exposed, then savers will take longer to regain confidence, and it will take a lot longer before companies get the capital they need to make the world economy recover.

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Unfinished Business

by Kandula Subramaniam

The sprint to upgrade infrastructure in India has slowed to a jog

THE REWARDS OF PATIENCE ARE SWEET. IN THAT case, nobody watching the Indian infrastructure scenario needs fear diabetes. Earlier this month, the Manmohan Singh government announced a stimulus package. This entailed a total spending (plan and non-plan) of Rs 3 lakh crore over the next four months. The package also mentioned a spending of Rs 1 lakh crore especially for the highways sector. Can it really pull off this tough act, especially on the infrastructure front? And even if it does, is there any guarantee the package will kick-start the economy?

After unveiling what is surely the first of more than one stimulus package, Deputy Chairman of the Planning Commission Montek Singh Ahluwalia told *BW*, "We are also looking at increase in public spending... all of which is directed to ensure that growth is maintained." Ahluwalia is but echoing the views of the Prime Minister (PM) who, at the G20's November conclave in Washington, noted that "investment in infrastructure will provide an ideal counter cyclical device" to the ongoing global financial crisis. "Investment in infrastructure today," he said, "is perhaps the best signal for reviving private investment, including FDI, tomorrow."

The PM is right. But ground realities are not easily persuaded. In the past four years, infrastructure projects have largely remained on paper or incomplete, even though between the different administrative ministries and the Planning Commission, vast amounts of time have been spent on formulating policies.

Opinion, though, is divided on the government's performance in infrastructure. "The first three years did see some activity, such as airport privatisation, but that came to a halt this year," says Amrit Pandurangi, who heads the transport practice for PricewaterhouseCoopers, in Gurgaon. Vinayak Chatterjee, chairman of New Delhi-based Feedback Ventures, disagrees: "I see the past three-four years a bit differently. We have compressed a lot of learning on many infrastructure sectors into a short period, which would have taken many more years in other countries."

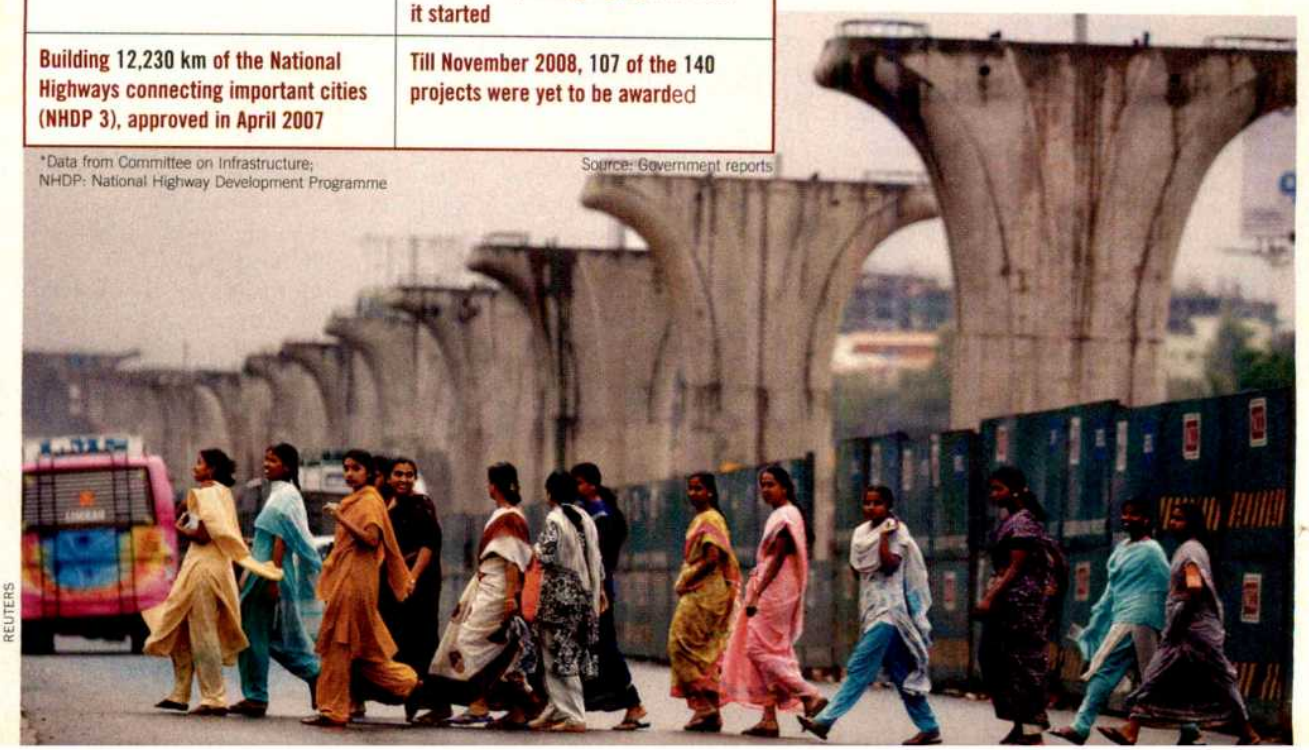
The Planning Commission's projections show that India requires investments of approximately $580 billion (Rs 28.4 lakh crore) in infrastructure projects across electricity, ports, roads, metro rail, urban infrastructure and airports.

SLOW DRIVE

	Commitment	Status
ROADS	The four-laning of the 7,300-km North-South East-West corridor to be completed by December 2009*	None of the 47 projects under the North- South East-West corridors has been awarded till October 2008
		The Golden Quadrilateral has at least 15 projects pending eight years after it started
	Building 12,230 km of the National Highways connecting important cities (NHDP 3), approved in April 2007	Till November 2008, 107 of the 140 projects were yet to be awarded

*Data from Committee on Infrastructure;
NHDP: National Highway Development Programme

Source: Government reports



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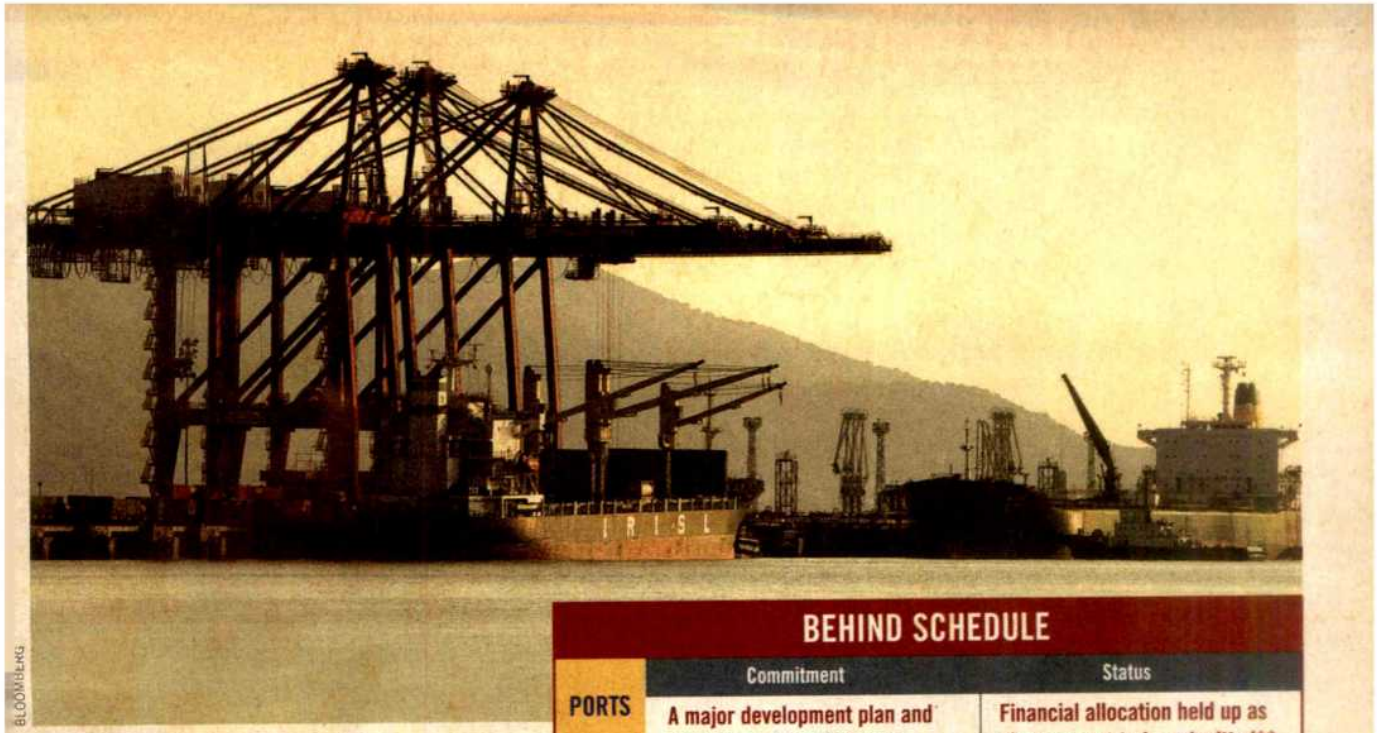


BLOOMBERG

BEHIND SCHEDULE

	Commitment	Status
PORTS	A major development plan and financing for the ports was approved in May 2005	Financial allocation held up as plans are yet to be submitted**
	Physical target to award 52 berths in major ports by 2012	Only six awarded till date

**From official data on review of port sector released in November

Source: Government reports

The government had begun well. One of the first tasks undertaken by the PM was to create a special Committee on Infrastructure (CoI) directly under him, for which the Planning Commission was to serve as secretariat. But a major hurdle, according to officials involved in the discussions, was that the Planning Commission's views on infrastructure policy matters assumed significance even if other ministries, including finance, subscribed to other views.

"Normally, the line ministry or the administrative ministry, such as the power ministry for the power sector, should be given the freedom to decide, as it (the line ministry) would have a better understanding of ground realities," says Pandurangi. "But having another power centre, such as the Planning Commission, to also decide on policy matters means that we are moving far away from reality."

The facts bear this out.

Blacked Out

Since Independence, India has always fallen short of planned capacity addition in power infrastructure. In the Tenth Plan (2002-07), barely 20,000 MW capacity was added, a shortfall of more than 50 per cent. In the 11th Plan (2007-2011) period, the power sector consumes a massive 30 per cent of the total projected investments. But for the first time, some foresight — advance order booking, promoting equipment-supply companies such as L&T alongside BHEL — was applied. Moreover, developers of the Sasan and Mundra ultra-mega power projects (UMPPs, each of 4,000 MW) have told the power ministry that some units are likely to be commissioned before 2011.

But there is bad news, too. Officials say the government has already postponed the tender process for the UMPP in Jharkhand's Tilaiya as one of the bidders — Tata Power — has sought more time in view of the ongoing financial crisis. However, Tata Power's Managing Director Prasad Menon told *BW*, "It is the government (which) has postponed the bid."

"Given the current financial situation, the ministry will review projects on the basis of a few key parameters: fuel linkages, land availability, and the debt and equity mix," says Power Secretary Anil Razdan. This review, he says, will be done shortly.

In fact, securing fuel assets is as important as adding capacity. Already, coal shortages are threatening to affect existing power plants. Over the past five-six months, 30-55 of the 70-odd thermal power stations have had less than seven days of coal stock; many reported zero stocks. This has prompted the Centre to ask Coal India (CIL) and National Thermal Power Corporation (NTPC) to import 16-19 million tonnes (MT) of coal from global spot markets.

Miles To Go

Let's take roads next. This sector, which has been the focal point of inter-ministerial disagreements, claims to require 15.4 per cent of the total projected investments of Rs 28.4 lakh crore. Work on the famed 5,846-km Golden Quadrilateral (GQ), the first national highway road project connecting Delhi,Kolkata, Chennai and Mumbai undertaken in early 2000, was

EXECUTIVE SUMMARY

- The government is hoping to stabilise the slowing economy by boosting spending on infrastructure sector
- However, many infrastructure projects are delayed because of disagreements between the government and infrastructure firms over certain clauses

to be completed by 2004-2005. So far, only the Mumbai-Delhi corridor has been completed. Officially though 97.5 per cent of the GQ is said to be complete, and the whole project is now expected to be completed by mid-2009.

November 2008 figures show that of the 8,362 hectares of land to be acquired for the GQ, 98.38 per cent has been acquired. Then, GQ is the first road programme of the National Highway Development Project (NHDP) 1. On paper, apart from NHDP 1, there are NHDPs 2, 3, 4, 5, 6 and 7. It was NHDP 1's poor implementation record that prompted the government to work out a model concession agreement (MCA) for roads with clearly outlined responsibilities for the government and the developer. "Having a model document is a good concept, but such documents should allow flexibility," says Pandurangi, "What is good for six-lane highways may not be so for four-lane highways. If an MCA becomes the document for all road projects, then flexibility will be lost."

The MCA's controversial clauses went through prolonged discussions between ministries — road transport, finance and Planning Commission — and resulted in its final version emerging two years late, in 2007. "There is just too much tinkering with policy, which is preventing developers from sticking to decisions," says M. Murali, director general of the National Highways Builders Federation (NHBF). "We have already lost more than a year and a half over qualification criteria, which would have decided about Rs 50,000 crore of investment for over 7,000 km of national highways."

High And Dry

As with roads, an MCA for the ports sector was to be developed by August 2005. However, inter-ministerial disagreements resulted in targets set by CoI being shifted as many as eight times starting August 2005, with the final draft being cleared only on 3 January 2008 by the Union Cabinet. When *BW* asked former Shipping Secretary A.K. Mohapatra the reasons for the missed deadlines, he declined to comment.

"Even two years ago, when the investment climate was ripe, policies were getting muddied," says J.P. Rai, CEO of Skil Infrastructure, which is into ports, SEZ and shipyard building. "Now, the situation is very different — investments are being put on hold." The delay in the ports' MCA has put other major decisions on hold. For instance, in a meeting held by CoI on 12 May 2005, it was decided that "new berths at major ports would be constructed through the public-private partnership mode after June 2005". A status check of government documents shows that, till date, the Department of Shipping, despite setting a target of 52 berths for 2006-12, has awarded only six. Of this year's target of nine berths, none have been awarded.

One of the cornerstones of port development is to reduce 'dwell time' of ships. In February 2006, CoI asked the shipping ministry for a plan to bring dwell times down to international levels, but a final policy is still awaited.

A Clause Is The Cause

The government's role is to facilitate investments through policy measures. But two policy examples — restrictive clauses in model qualification documents (RFQ) prepared by the Planning Commission on behalf of the government, and offering commercial land to project developers — have invited criticism from stakeholders.

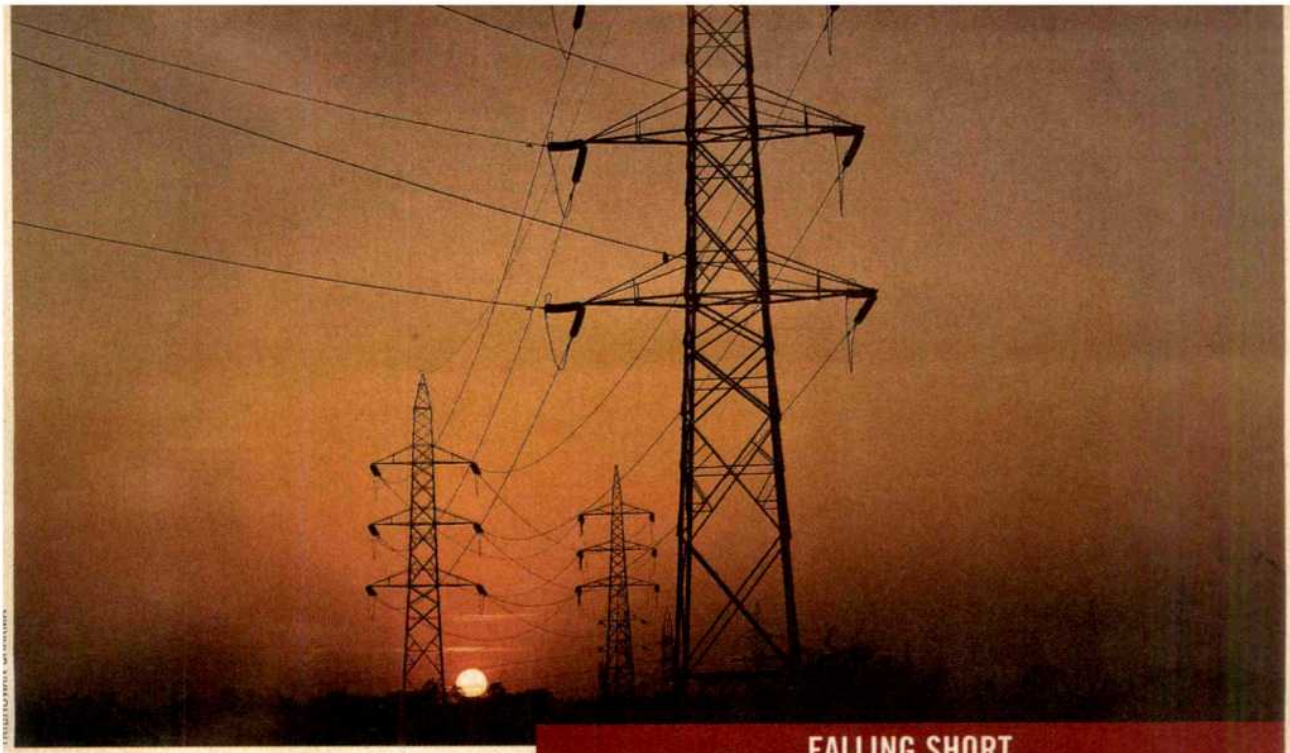
The stalemate has reached a stage where almost all developers of infrastructure projects — whether pertaining to roads, ports, airports, power or railways — are in complete disagreement with clauses in the RFQ that allow a fixed number of tenders (only six bidders in the case of roads) to enter the final phase of price bids. "This one clause in the RFQ document has not only affected the road projects, but has also affected progress in awarding airport and port projects," says Pandurangi.

Another bottleneck is assigning marks on the basis of experience at the pre-qualification stage, which automatically disqualifies new companies wanting to enter infrastructure development. Moreover, those that win one contract will get higher scores for subsequent projects, thereby leaving all infrastructure projects to be dominated by a few companies. "The principle is sound, as this clause aims to attract the most capable companies in the execution of infrastructure projects," says Chatterjee. "However, it should be applied to large infrastructure projects such as airports, and not to small ones."

GUIDING LIGHT

Action points being considered by PM Apex panel for infrastructure:

- Identify group and single project exposure limits for banks funding infrastructure projects as constraint; ask RBI to temporarily relax these norms for the next, say, 18 months.
- Zero in on the definition of infrastructure. The Planning Commission has one, RBI has one and the Income Tax Act has one.
- Reverse restrictions imposed on external commercial borrowings (ECB) to the pre-21 May position.
- Banks to be told to abide by earlier loan documents. They should not renegotiate rates on account of an increased 'risk perception'.
- Explore the option of providing assured finance for PPP projects approved by the government or the PPP appraisal committee.



FALLING SHORT

	Commitment	Status
POWER	Target capacity addition programme for 2008-09: 11,061 MW	Actual till Nov 2008: 2,666.2 MW or 24% of target in eight months

Source: Government reports

Since December 2007, as many as 60 tenders under NHDP 3, the largest national highway project meant to connect towns and cities of importance with four-lane roads, have been on hold because of this clause in the RFQ document, which has been challenged by a host of highway developers, including the NHBF. "When the highway projects first started, there were probably only three-four such companies," says NHBF's Murali. "Over the years, through a process of capacity building, this number has gone up to 150. If the intention of this clause is to weed out non-serious bidders, why would companies want to spend Rs 1-2 crore to process documents just to qualify for bidding?"

The Delhi High Court, which has not accepted the developers' plea, said in November that the deletion of the clause at this late stage would be like "changing the rules of the game mid-way", and that this would further delay the awarding of contracts for projects of national importance. The finance ministry endorses this view as the bidding process has already reached an advanced stage. "This clause has been deleted from future highway tenders," admits S.V. Patwardhan, chief executive director of Madhucon Projects. "However, now things are different. Given the current financial situation, banks are not funding projects. A tacit 'wait and watch' approach has been adopted."

A more recent issue is the clubbing of commercial land to 'cross-subsidise' an infrastructure project, over and above the new concept of viability gap funding (VGF), where the government offers up to 40 per cent of a project's cost as a grant to improve its financial viability.

This is not without dangers. While the Maharashtra government refused to stake land for its metro rail project, the Andhra Pradesh government did. Thereafter, the Hyderabad project got mired in controversy over allegations that the winning consortia (Maytas) had unfair advantage as the land clubbed with the project was already owned by the consortia. "It is not a good idea to club commercial land with infrastructure projects as real estate has its own vagaries," says Chatterjee. Officials agree with this.

More often than not, there is no consensus on the right way forward — whether on MCAs, qualification documents, or even the exact definition of 'infrastructure'. For instance, while banks follow the Reserve Bank of India's lead, there is another definition that allows exemptions under the Income Tax Act. Indeed, this issue was flagged off at the PM's Apex Committee meeting recently, while considering the stimulus package (see box 'Guiding Light' on page 52).

The government is already preparing a policy document to list out the pros and cons of offering land to infrastructure projects. This can be expected to lead to more discussions and, no doubt, more disagreements. Somewhere in this unresolved territory between good intentions and confused policy lies the future of Indian infrastructure. Whatever you can rightly say about India, as economist Joan Robinson once said famously, the opposite is also true.

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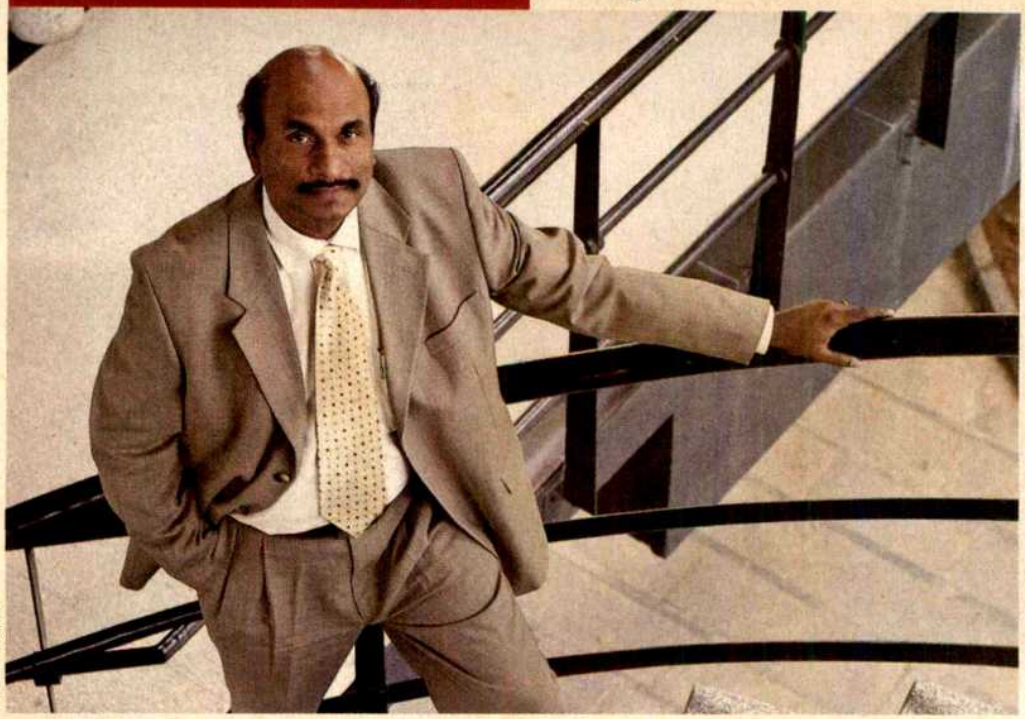

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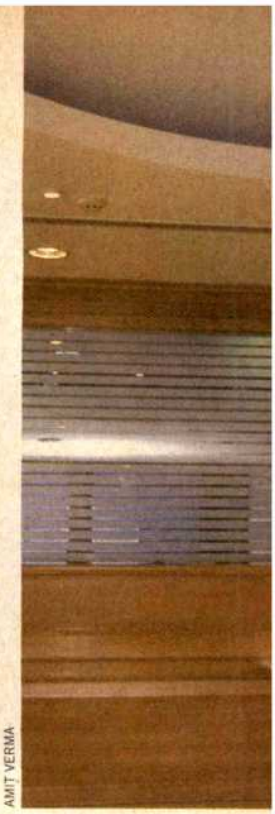

AMIT VERMA

Leading By Numbers

by Feroz Ahmed

When the going gets tough for a company, the CFO gets going

IN GOOD TIMES, IT IS THE EXPANSIONIST CEO WHO hogs the limelight: cash surpluses and cheap funds encourage imperial designs. But when financial markets trip and demand slips, like now, the chief financial officer (CFO) is expected to clean up the mess.

"Working capital cycles are getting stretched and everybody, including banks, is trying to conserve capital," says Dipak Gupta, executive director of Kotak Mahindra Bank. In this scenario, according to Wipro CFO and Executive Director Suresh Senapaty, a CFO's ability to conserve, restructure and build cost-competitiveness will be tested.

"Top management is not paid huge salaries to match the GDP growth, but to outperform the economy by a big margin," says Shaurav Sen, managing director of Corporate Executive Board (CEB), a management research and advisory firm. B. Hariharan, CFO of paper major Bilt, says that this downturn is the perfect time for CFOs to stand up and be counted, by keeping the morale high through a positive approach, at a time when scare-mongering is fashionable.

SURVIVAL TACTICS: CFOs such as Suresh Senapaty of Wipro (top left) and B. Hariharan of Bilt (right) play a key role during a slowdown

In The Driver's Seat

At the suppliers' end, the automobiles industry is one of the worst hit. As Ajay Seth of Maruti Suzuki is done with funding the company's new production facility for its newer vehicles — Swift, Dzire, SX4 and A-Star — his headache is now limited to dealing with the drop in demand. Maruti's sales volumes have been falling short of last year's levels for months now. In November, sales were down 27 per cent at 47,103 vehicles. But, in comparison, C. Ramachandran of Tata Motors has the weight of the world on his shoulders.

He not only has to deal with falling sales — a 30 per cent drop in November with combined sales of cars and trucks adding up to 32,396 vehicles — he has to carry the burden of the $2.3-billion (Rs 11,270-crore) acquisition of Jaguar Land Rover (JLR), which continues to lose money. JLR is finding it hard to raise loans and has even gone to the UK government for a $1.4-billion (Rs 6,860-crore) bailout. Ramachandran somehow cobbled up the money to foreclose the loan taken to buy JLR last month — selling chunks of stakes in several Tata Motors subsidiaries and in Tata Steel, and making a rights issue, which had to be supported by Tata Group companies because the company's share price fell below the issue price. Ramachandran desperately needs the government's stimulus package to work — the 4 per cent production tax cut, and the resumption of

vehicle purchase financing by government banks, at least for government employees enriched by the recent Sixth Pay Commission pay rise. He declined to share his ideas for rescuing the company, if he had any.

Maruti's Seth, for his part, is using the dip in sales to streamline business and drive down cost per vehicle by about 20 per cent — despite having the luxury of Rs 4,500-crore liquid assets in his balance sheet. Seth has cut production to match the current demand levels, and retrieve cash stuck in inventories. He has also squeezed 20 per cent saving from logistics and executive travel expenses. Further, he wants car production time reduced by 20 per cent through process efficiencies to turn around working capital faster. He is also pushing for reduction in the company's advertising budget by using radio more than television and avoiding pure brand-building advertisements. "Our brand is already well known," he says. Contrary to what many CFOs are tempted to do in bad times, Seth is not squeezing suppliers and dealers to have more cash for Maruti alone. "The entire ecosystem of the company has to be secure for the company to be secure," he says. Maruti is helping its suppliers against any hiccups in funding by paying in advance, and is helping dealers raise bank credit for taking deliveries.

Buy The Way

Some CFOs are using cash reserves to acquire strategic assets in this downturn, which were either unavailable or unaffordable earlier. Dabur India's Rajan Verma wrote a cheque for Rs 203 crore last month to acquire Fem Care, a company with strong presence in skincare. "Though we've used up our cash in this acquisition, we are continuing to generate healthy cash routinely in our operations as the demand for food and personal care products is still strong," he says. Verma is looking to save money on raw materials by entering quarterly contracts at their fallen prices, and to peg their cost at a predictable level. He is not cutting advertising expenses, rather he is increasing those to keep consumers excited about his products.

Unlocking Value

Financial restructuring is another thing that CFOs will be doing a lot in these times. Bilt's Hariharan generated Rs 1,900 crore for his company last year by transferring part of the company's assets to a Netherlands-based subsidiary, and then selling a minority stake in the subsidiary to private equity and investment banking outfits. Having cleaned up debts of about Rs 1,000 crore from his balance sheet with that money — the rest was used to buy back shares — he is now focusing on ensuring cash availability as credit is tight and costly (about 15 per cent for Bilt). "Though banks are beginning to ease up on lending after the near-freeze in November, CFOs need to look at the cash position on a daily basis for the next 12 months," Hariharan says.

Omesh Sethi, CFO of Ranbaxy Laboratories, is monitoring working capital in all the Ranbaxy operations in nearly 50 countries. "We're cutting down pipeline stocks, controlling payables, optimising current capacity utilisation, and outsourcing the servicing of peripheral demand," he says.

According to R.S. Sharma, chairman and managing director of ONGC, who was also the CFO of the oil production major until recently, the key responsibility of a CFO in these times is to reduce per unit cost and enhance per unit revenue without destroying the business' long-term prospects.

CEB's Sen sums it up succinctly: "In this environment, you can tell bad CFOs by the gross way [in which] they are cutting jobs in bulk and squeezing cash out of suppliers and customers to boost their own stock. A good CFO ensures that he does not cut into the flesh and bone of his company when he is trimming the fat."

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CFOS' TEN COMMANDMENTS FOR BAD TIMES

- Conserve cash.
- Squeeze out cash trapped in the system.
- Monitor cash flows of the critical suppliers and customers, and help them raise funds.
- Park surplus cash in liquid funds without high-risk exposures.
- Use surplus cash to acquire competency-enhancing companies and assets that are affordable now.
- Enter long-term sourcing contracts for commodities at fallen rates.
- Consolidate duplicated functions of divisions into centralised pools.
- Invest in innovations that help the customers save money on purchase and usage.
- Invest in strategic products and technologies to keep the company ready for the economy's revival.
- Wield the knife lightly — do not cut out the flesh and bone of the company along with the fat.

TRIBHUWAN SHARMA

Not In Good Health

by Gauri Kamath

Consumers are paying unnecessarily for propped-up drug prices

IN A BYLANE OF BYCULLA IN OLD MUMBAI, A motley crowd of young men and women mill around in the lobby of Meher Distributors, which distributes drugs of over 90 companies. In their hands are printouts — monthly sales figures of products they hawk — which they scrutinise intently. These youngsters are at the frontline of India's Rs 31,000-crore pharmaceutical industry comprising 150 drug makers, according to ORG-IMS, a Mumbai-based pharma research and consultancy outfit. There are also countless others who come and go as they please thanks to lax regulatory oversight. Around them has evolved an ecosystem of intermediaries — clearing and forwarding agents, super-stockists, distributors, semi-wholesalers and chemist shops that channel medicines to consumers.

This strength in numbers, it has been argued, has kept prices down and brought the latest drugs to consumers. "In India, your average drug is not expensive," says Arvind Vasudeva, managing director of Mumbai's RPG Life Sciences. "And there is a choice of drugs."

So, it is ironic that consumers may be paying artificially high prices on a number of drugs.

All In The Name

In the West, there are broadly two categories of drugs: one, innovative, patented ones with premium pricing known as brand-name drugs; two, off-patent, cut-price copies, known as generics, usually referred to by their scientific name (think paracetamol, not Crocin). When a drug loses patent protection, the market shifts to generics, which are therapeutically the same, but cheaper since they are reverse-engineered, legal copies of the original. In India, nearly all drugs are off-patent. Yet consumers pay a premium for 'brands' prescribed by their doctors. For instance, ten unbranded tablets of blood pressure drug amlodipine (5 mg) from generics maker Lo Cost is Rs 3.70, but brands can cost anywhere from Rs 21 to Rs 77.

Thanks to the profusion of spurious, substandard drugs and a lax quality control regime — getting approvals using forged data or submitting dossiers purchased from testing com-

panies is not unheard of, says a senior executive in Mumbai under condition of anonymity — both patients and doctors "believe in brand names", says S. Srinivasan, an activist at the All India Drug Action Network, and managing trustee of Vadodara-based Lo Cost, which makes unbranded generics for government tenders, hospitals and NGOs.

But equally, branding is good business. In the absence of patent protection, there are tens of copies of each molecule, making differentiation in the doctor's mind a daunting task for marketers. For instance, there are over 100 copies of ulcer drug omeprazole in India, says Chandra Gulhati, editor of New Delhi-based *Monthly Index of Medical Specialities* (MIMS). So, companies brand them and their sales persons talk to doctors about them. "The doctor gets used to writing a particular brand — provided it works — after hearing about it often," says S.N. Misra, secretary general of the Indian Medical Association (IMA).

The Cost Of Promotion

Repeated visits by medical representatives help in brand recall for doctors. Sometimes, prescriptions are also linked to a patient's economic status. "If the patient is poor, doctors tend to prescribe cheaper brands," says Misra.

However, unethical marketing practices are widespread. A paper published in the *Indian Journal of Medical Ethics* (IJME) in 2007 highlighted gifting of "jewellery to electronic items and even automobiles" to doctors by drug companies. Then, two doctors practising in slum areas were "offered a cellphone handset for prescribing 1,000 tablets, an air cooler for prescribing 5,000 tablets and a motorcycle after 10,000 tablets were prescribed", the paper says. Neha Madhiwalla, a co-author of the study, says that one company even helped a doctor set up his nursing home on the guarantee that its drugs would be prescribed there.

"Almost everyone is in this rat race," says a medical representative with a Mumbai-based drug maker. While industry associations spell out a code of ethics, this is seldom observed in practice, he claims. He also points out that in his own firm, rewards are designed to suit the doctor's profile. For instance, the division that sells to specialists spends more on cocktail parties at five-star hotels and foreign 'picnics' than on gifts since highly paid consultants are not impressed by freebies.

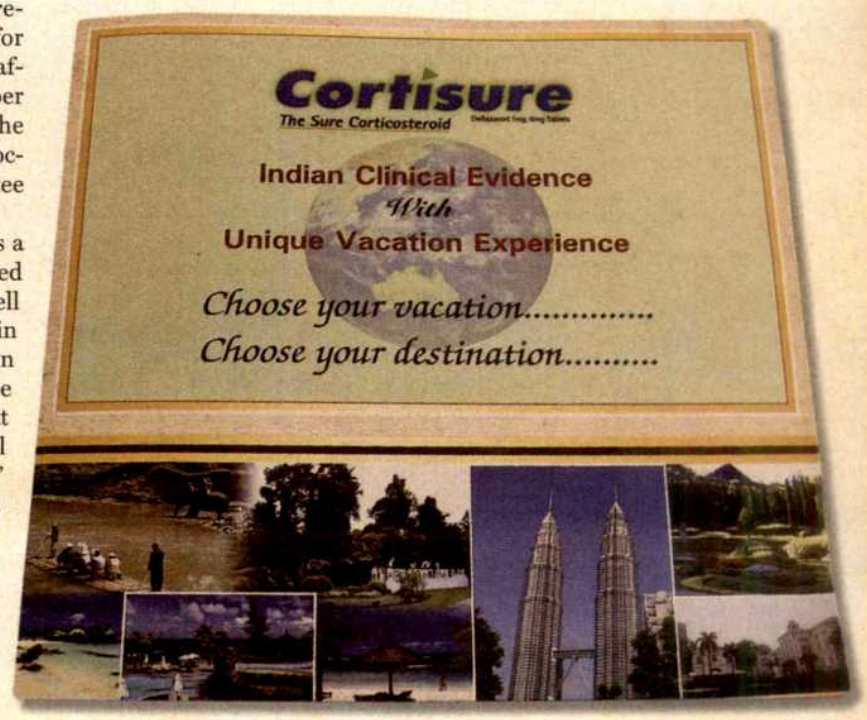
Doctors were also found to pressure companies. An Indian drug company that did not sponsor a conference by one doctors' association was punished by way of "infrequent prescriptions", the paper says. Gulhati of MIMS alleges that IMA itself has got drug companies to sponsor its events. But IMA's Misra, whose association has endorsed Eureka Forbes water filters and Lifebuoy soap, says any form of inducement is unacceptable.

For some time it was felt that with a strict patents regime since 2005, these practices would reduce as doctors would start prescribing off-patent drugs by generic name. But the problem could well have got worse as companies launched any and every drug available to copy to beat the 2005 deadline. The rush is no surprise given that the branded business earns companies their fattest margins — in the range of 30 per cent after accounting for marketing expenses, according to pharma analysts. The trade, too, makes a minimum 30 per cent margin except on drugs under price control, where the government fixes margins at 24 per cent

But it is the consumer who pays for this. "The pricing of brands includes the cost of promotion, overheads and development," explains Nihchal Israni, managing director of Mumbai-based Blue Cross Laboratories, makers of popular anti-pyretic Meftal, a brand of mefenamic acid. "Therefore, prices are generally higher (than unbranded drugs)."

So intent are all players on serving this market that pure, unbranded generics — of the same quality but cheaper — are ignored. "In terms of sales, (unbranded) generics must be 3-4 per cent of the Indian pharma market," says Srinivasan of Lo Cost, who thinks that one way to boost them is to mandate generic substitution of a costly brand.

Others concur with this view. "Generic substi-



SMALL REWARDS: Alembic, the company that gave doctors this brochure, claims it is a low-cost way of getting data on Indian patients from them

WILL IT WORK?

India's Ministry of Chemicals and Fertilisers has decided to set up generic drug stores in each district of the country with trained staff dispensing low-cost generics to customers. The shops are to be set up in cooperation with state governments and NGOs. "We want to show that it is possible," says Ashok Kumar, secretary, Department of Pharmaceuticals. The generics will be procured either from public sector units or private companies.

The initiative is commendable, but it needs several things to work. One, the chemist shops will have to be well-stocked as if a consumer is turned away once, he may not return. Two, the procurement process will have to place a premium on quality, and not just the lowest price as is currently the case with government tenders. Three, private players may expect a certain volume of demand guaranteed to deliver at a certain price. Four, the initiative will have to be quickly ramped up in order to have an impact. Five, there has to be consumer awareness to generate pull. And the key — doctors will have to prescribe by generic name, a process that just a few states have mandated in public hospitals.

tution is a no-brainer," says Viraj Gandhi, CEO of Mumbai-based Melrose Trading, a master franchisee for US pharmacy chain Medicine Shoppe, who suggests doing this for old, established drugs used in common ailments. "A pharmacy like ours with systems, processes and trained staff is well-placed to do that." Adds IMA's Misra, "We have no objection to that; those drugs are cheaper."

The Medical Council of India, a statutory body, actually requires that doctors prescribe by generic name as far as possible. But the Indian Drugs & Cosmetics Act prohibits the switching of a doctor's prescription. The law, of course, could be amended, but still, generic substitution is easier said than done.

Is It Feasible?

While there may be lakhs of chemist shops in the country, not many employ trained pharmacists, a legal requirement, observes Gilan Ferzandi, managing director of Meher Distributors. So, "it is neither practical nor feasible (to mandate substitution) as chemist shops may misjudge the doctor's prescription", he says. Others warn that if the government kills the incentive to hawk brands, it will have to ensure ample supply of quality generics.

MIMS's Gulhati says unbranded generics are often dispensed in large jars, and not in strips like brands since they are not required to. "How will you trace the manufacturer?" he asks. And Tapan Ray, secretary general of Mumbai-based Organisation of Pharmaceutical Producers of India, points out that while the generic may contain the same active drug as the branded one, other ingredients of the medicine may differ, leading to differential efficacy.

While these arguments have quelled any thoughts of mandating generic substitution, in practice, informal prescription switching is already commonplace.

The Proliferation Of 'Branded' Generics

Sometimes, chemist shops offer an alternative brand if they are out of stock of a particular brand. But mostly, it is because they get better margins on one brand over another.

This is less likely in cities than in the interiors. "In a city like Mumbai, a customer can insist that if he doesn't get what the doctor has prescribed, he will go elsewhere," says Meher's Ferzandi. But outside metros, where there can be supply constraints, patients often accept a switch.

The pharmacy, a strong influencer of drug sales, has spawned a sub-segment called 'branded generics' — medicines bearing brand names that are sold at deep discounts to chemist shops by drug makers. But the retail price does not drop proportionately. Trade margins can be as high as 1,000 per cent because these drugs are not promoted to doctors. There are fewer tiers of distribution, and terms to trade are tight. Manufacturing, too, may be done in plants that just about meet basic standards, says Dilip Mehta, president of Mumbai-based Pharmaceutical Wholesalers' Association.

Still, Gulhati says, at least branded generics can be traced back to the company.

Traders see this business as a reward for taking drugs into areas where companies wouldn't care to go. And in cities where "business is very competitive, the margins that they make on a few such products help them stay in business", says Mehta.

There are no quick fixes. "There is merit in using generics over brands," concedes Ashok Kumar, secretary, Department of Pharmaceuticals, Ministry of Chemicals and Fertilisers. "But the market structure makes it challenging." A proposal to fix trade margins of branded generics at 50 per cent, virtually legitimising it, cannot go through unless India adopts a new pharmaceutical policy, he says. That policy has been caught in a web of committees and court cases since 2002. Kumar is now piloting an effort by the ministry to launch generic drug stores in tie-ups with state governments instead (see 'Will It Work?').

In the meantime, perhaps it makes sense to clamp down on unethical marketing practices, legalise switching and then spell out the rules for prescription switching by chemist shops. One government official says the issue of pharma promotions came up in an April meeting of an advisory body set up by the chemicals ministry, but will be taken up for discussion next time. The date, though is yet to be fixed. Hope lives on.

gauri.kamath@abp.in

स्टार न्यूज़ ने जीता चुनाव

5 राज्यों के विधानसभा चुनावी नतीजों के लिए आपने स्टार न्यूज़ सबसे ज्यादा देखा। आंकड़ो के हिसाब से स्टार न्यूज़ ने अपने प्रतिद्वंदी IBN7, आज तक और इंडिया टीवी को पछाड़ा।

यहाँ तक की पहले चार सबसे ज्यादा देखे जाने वाले प्रोग्राम सभी स्टार न्यूज़ से थे।

....धन्यवाद

अब देखिये

STAR न्यूज़

आपको रखे आगे

कौन बनेगा प्रधानमंत्री 2009

रोजाना
शाम 06:30 बजे

Market Share, Source : TAM, TG : CS 15+, Market : HSM, 8th Dec '08

ART

Roadside art

A unique concept-based art festival attempts to address some ecological issues

By Janhavi Abhyankar

ART HAS MOSTLY BEEN THE PRESERVE OF THE elite. The common man — caught in the drudgery of daily life — has never had the time nor the money to spend on this 'frivolous' pastime. Even the subjects dealt with by artists generally fail to impress the masses.

But all this could change. Max Mueller Bhavan — a branch of the Goethe Institute, a Germany-based not-for-profit organisation — brought artistic work out of intimidating galleries by installing paintings at public places in New Delhi, recently. Not just that, it chose a subject that most people can relate to in today's environment-conscious world — the ecology.

Named 48 Degrees, signifying the highest temperature recorded in Delhi, this concept-based art festival started on 12 December and ended on 21 December. So, for ten days Delhiites got to see works by artists from across the globe at places such as the traffic intersection at Mandi House, Agrasen ki Bavdi at Connaught Place, Kashmere Gate and Chandni Chowk.

So, a bus driver caught in a traffic jam at Mandi House, a *paanwalah* at Chandni

DRAWING ATTENTION: Ravi Agarwal's work 'Extinct' focuses on saving vultures

PHOTOGRAPHS: TRIBHUVAN SHARMA

Chowk, or a rickshaw-puller at Kashmere Gate could see something as thought-provoking as a globe-trotter passionate about preventing climate change. Artists not only brought to the fore issues that were mundane and often overlooked, but also created the much-needed dialogue on conservation. "People are really talking and watching, which is quite impressive," says Pooja Sood, artistic director and curator of 48 Degrees.

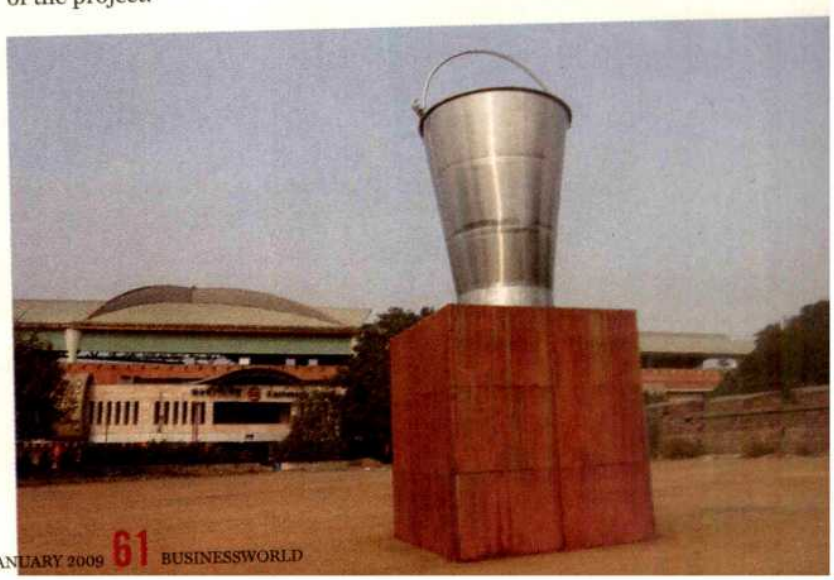
Some installations tried to cajole people to think how their lives would change if they did not take note of the changes taking place around them. Delhi-based artist and environmentalist Ravi Agarwal's work 'Extinct' at the Mandi House roundabout depicted the near disappearance of scavenger birds — vultures — from the Indian sub-continent. Though all Agarwal did was tie a couple of cloth pieces cut in the shape of wings between trees, the installation spoke volumes. Being on the top of the food chain, these birds, though ugly and unattractive, did the most important job of doing away with the carcasses of dead animals. But their preying on the carcass of cows, which had been given Diclofenac tablets to relieve their pain and increase their milk, led to the near extinction of vultures.

Subodh Gupta's huge stainless steel bucket near Kashmere Gate was perhaps an apt way to talk about the importance of water conservation. Gupta is known internationally for his work with Indian utensils such as milk cans and jewellery pieces such as trinkets. "The first thing you would think about in water shortage is a *balti* (bucket), hence this work," explained Gupta. Then there was Atul Bhalla's 'Chabeel', at the Old Delhi railway station which was based on the idea of Yamuna river, once a clean and free flowing, now on its way to becoming a dirty drain.

While the intent of the festival was noble, the execution left much to be desired. Most installations put up across the city were meant for night viewing and had little meaning for people who walked past them during the day. For example, the vultures at Mandi House that gave a visual effect of flying birds at night, were reduced to three pieces of white cloth during the day. There were no footnotes, or information about the displayed project. Some volunteers *BW* spoke to could not give much information either as they were quite clueless themselves. Stefan Dreyer, regional director for South Asia of Goethe-Institut, however, justified the lapses: "This is just the beginning. We will overcome the problems that we faced this time."

If the idea was simply to make people curious and start talking about environmental issues, then the festival can be termed a success. Max Mueller Bhavan now wants to take this initiative forward by trying to get NGOs and private firms to contribute, so that other cities in the country become a part of the project.

THOUGHT-PROVOKING: (Clockwise from top left) Navjot Altaf's 'Barakhamba in 2008' depicts the need to conserve nature; Atul Bhalla's 'Chabeel' and Subodh Gupta's steel bucket reflect on the imperatives of water conservation



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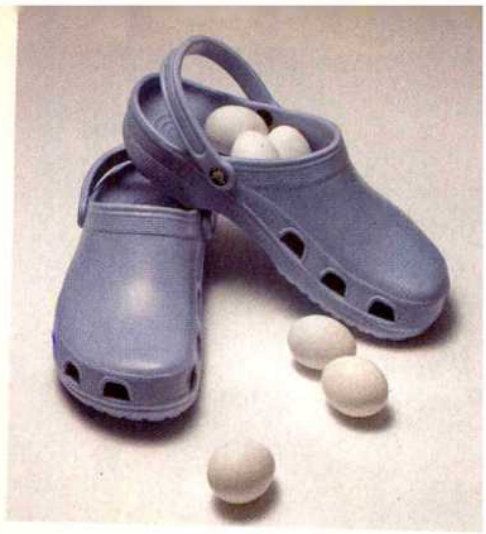
Starts 15th Jan 11pm

FOOTWEAR

Sole mate



COOL CROCS: These medical shoes have anti-fungal properties

TILL A FEW YEARS ago, it was difficult to prepare for a romantic evening on the beach. You could let your hair down and get into that perfect beach wear. But unless you decided to be Miss Practical and slipped into your rubber *chappals*, there was no way of getting close to the water without squelching your way through it. But that was before US shoemaker Crocs created a revolution of sorts in 2002.

Crocs transformed an unusual clog created by a Canadian company into a pair of comfortable and chic shoes by attaching matching straps to them. Made of proprietary resin Croslite, these shoes, with characteristic holes, are soft, lightweight and odour-resistant. Apart from walking on the beach, they are ideal for boating, hiking, fishing and gardening. They are also easy to find, as they are available at outlets across the world and can be identified by their fluorescent colours.

The company recently launched its Crocs Rx or 'medical shoes' range in India. These shoes have anti-fungal and anti-bacterial properties, and are ideal for anyone susceptible to skin breakdown, ulcers, foot fungus, infections or diabetes. People prone to such ailments usually need shoes that provide proper aeration so that bacterial growth is restricted. Ventilation ports in these shoes do just that and keep the feet cool. The roomy toe box design allows people with foot injuries to wear them, over and above the bandages. Priced between Rs 1,795 and Rs 1,995, this new range of Crocs is available in four colours — black, navy, light blue and chocolate.

Shalini S. Sharma

Peace Makers: Tuantuan and Yuanyuan, two giant pandas gifted by China to Taiwan, in their new home in Taipei City Zoo.

GADGETS

N-chanting experience

BLOOMBERG

SMART N' SLEEK: The Nokia N97 is seemingly the next big thing

"FROM THE DESKTOP to the laptop and now to your pocket, the Nokia N97 is the most powerful, multi-sensory mobile computer in existence." That is what Jonas Geust, vice-president of Nokia who is in charge of the N-series said, while unveiling the phone at Nokia World 2008, in Barcelona, Spain. The N97 is, however, still six months away from a worldwide launch.

It combines a large 3.5-inch touch display with a 35-degree tilt screen. It is aimed to transform "the internet" into "your internet" at less than Rs 40,000. Nokia-India Managing Director D. Shivakumar says, "You can just click at Taj Mahal and you will get all the details about Taj on your N97." With integrated global positioning system (GPS) and an electronic compass, the phone understands where it is.

Experts, however, feel the product needs more edge. Some said the N97 has to prove itself over Sony Ericsson's Xperia and Samsung's Omnia. "There is a potential and that is what the whole world would like to see," says Neeraj Roy, MD & CEO of Hungama Mobile.

"We look forward to developing the Wi-fi capabilities as it fits the bill perfectly," says Uri Neeman, executive vice-president of business development and marketing at WeFi, an Israel-based firm.

However, with 48-GB storage, including 32-GB memory expandable with a 16-GB microSD card, it may be worth the price. A 5-megapixel camera with Carl Zeiss optics, 16:9 DVD quality video capture and support make it quite fascinating.

M. Rajendran

BON VIVANT

Old world charm

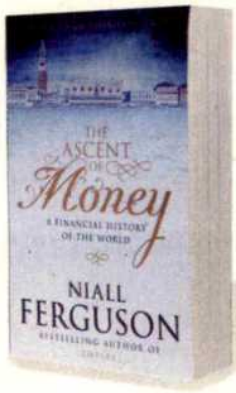
THE KINGS, THE QUEENS AND THEIR WISE MEN ARE gone but their legacy stays on. All the beautiful and exotic things, which gave the aristocracy its exclusivity, were fortunately always made of a material sturdier than mortal men and women. Decades later, they survive to tell us the tale of grandeur and opulence of their times.

The most famous 19th-century jewellery house of Russia, Faberge Firm, which established a name for itself making jewellery and novelties such as the highly decorative and famous Easter eggs for the Tsars, including Nicholas II and Alexander III, is today revered for creating works of art that have withstood the test of time in popularity. At an ongoing exhibition at New Delhi's National Museum, one can see nine acclaimed pieces of Easter eggs and other curios created by Carl Faberge. He was the son of Gustav, a French guild merchant who came to Russia sometime in the early 19th century and set up the Faberge Firm in a small workshop in St Petersburg in 1842.

On display are some exquisite pieces of art such as a bull-dog shaped paperweight and a pine tree made of emeralds besides a whole lot of goblets, vases, seals and ashtrays. Though the exhibition, which marks the closure of the Festival of Russia, is being touted as a jewellery show, to an Indian audience exposed to much greater domestic craftsmanship, there is not much by way of ornaments here. Instead, it is interesting to see how Faberge worked on even the most humble of everyday things such as a gluepot, a miniature watercan or a pair of exquisite opera glasses. Check out the display before the exhibition ends on 18 January.

Shalini S. Sharma

CUTE NOTHINGS: (From top) A pair of opera glasses; a mushroom-shaped ashtray; a gluepot; and a miniature watercan



A Controversial Account

by pierre mario fitter

THE ASCENT OF MONEY
A FINANCIAL HISTORY OF THE WORLD;
BY NIALL FERGUSON; PENGUIN/ ALLEN LANE;
PAGES: 416; PRICE: Rs 595

NIALL FERGUSON IS PERHAPS THE ONLY PERSON who could write a book titled THE ASCENT OF MONEY and make it timely, eminently readable and useful — all at once. Ferguson, a historian and professor, has built his reputation simultaneously on outstanding research and controversial ideas. His earlier book, *Empire*, for example, met with heavy criticism for its unabashed support of British imperialism.

The Ascent of Money is Ferguson's attempt to demystify the world of finance. And he does so rather well by showing how finance has evolved from basic records of the annual harvest on clay tablets in Mesopotamia to modern day hedge funds that operate everywhere, yet exist nowhere.

Along the way, he makes important periods to explain how the idea of wealth has evolved over time from the possession of solid pieces of silver under the Spanish empire to the ownership of relatively complex financial instruments such as equity shares, bonds and insurance.

And he traces exactly how each concept emerged and helped redefine the ideas of money. Shares, for example, were first created when the Dutch East India Company needed to raise money to sail its ships to South-East Asia to trade in spices.

The uncertainty of the voyage added risk to buying these shares. The promise of great riches should the ships return increased their value. Enterprising share owners realised that it was better to sell their share if ships were sunk by a storm or buy more shares if news arrived that they had reached Europe laden with treasures. This trading took place in market that would later become the world's first stock exchange.

In another chapter, he explains how the concept of insurance emerged when two Scottish monks decided to create a fund that would provide for the families of deceased church ministers. Their actuarial calculations were so stunningly accurate that after 17 years, the value of their fund (£58,347) was only £1 short of what they estimated it would be.

Ferguson artfully uses the stories of important financial personalities to further his narration of emerging financial concepts. For example, he tells of how the Rothschilds bought and sold British government bonds to raise money to fight Napoleon when explaining the emergence of international bond markets. His mini-biography of George Soros takes the reader through the idea of hedge funds.

Ferguson's this book too is likely to be controversial. In one chapter. He describes the 17th century Scottish economist John Law as little more than a genius-rogue, responsible for creating one of the earliest stockmarket bubbles, while he served the Emperor of France.

This alone should be enough to raise the hackles of historians who regard Law as one of the most important pre-modern economic thinkers. But Ferguson goes one step further: He blames the decline of the French monarchy itself on the bubble, as the emperor's finances lay in ruins. Effectively, he completely sidelines the ideas of *liberté, égalité, fraternité* — the founding ideals of the modern French nation and all democracies.

In another section, he claims that economic discrimination — particularly when it came to home loans for Blacks — was what sparked off the Civil Rights Movement in the US. While his intentions are well-taken such callous correla-

NIALL FERGUSON is a well-known historian of contemporary politics and economics. He writes and reviews regularly for the British and American press and is a contributing editor for the *Financial Times*. In 2004, Ferguson was named one of the world's hundred most influential people by *Time* magazine. He teaches history and business at Harvard University. *The Ascent of Money* is his 10th book.

BROWSING
M.C. Appaiah
COO, Duncans Tea

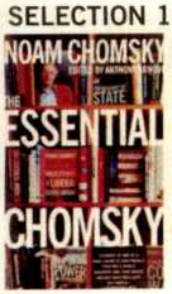
I am currently reading the Harvard Business Review on Brand Management. One key learning is that marketers must go beyond mass marketing and focus on niche areas. I also just finished reading *Football Manager: A History* by NEIL CARTER, which examines the influence of Britain's business culture on its football. I prefer reading management, fiction and biographies of self-made businessmen or turnaround specialists. My favourite authors include Peter Drucker, Sumantra Ghoshal, Eknath Easwaran and Sam Walton. One must-read recommendation is *Straight From The Gut* by Jack Welch.

tions belittles the centuries of ill-treatment the Blacks suffered — first as slaves, then as second-class citizens after the Civil War. Such incomplete historical writing would have been unforgivable even from first-time writers. Coming from a historian of Ferguson's calibre, who teaches at Harvard, one wonders whether these omissions were deliberately made to invite attention or controversy.

There are also moments when Ferguson leaves the lay reader confused: he introduces the concept of hedge funds early in the book but does not fully explain them for another 200 pages. But the clarity of his writing allows you to hazard (reasonably accurate) guesses on what the words mean.

I only mention these flaws because it would be wrong to ignore them. *The Ascent of Money* is by no means less of a book because of Ferguson's propensity to act as a lightning rod. If one can ignore his conclusions — history is widely interpreted anyway — and instead focus on the lesson, the book may be considered a classic. In an age of increasing financial complexity and decreasing financial literacy, books such as *The Ascent of Money* can help lay readers navigate choppy waters with better insight. There is certainly space for more books like this.

SELECTION 1



A Collection Of Essays

THE ESSENTIAL CHOMSKY; BY NOAM CHOMSKY; PENGUIN; PAGES: 496; PRICE: Rs 499

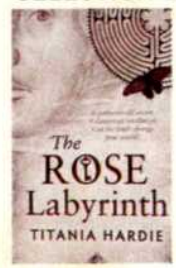
ON HIS 80TH BIRTHDAY, NOAM Chomsky fans get a gift from Anthony Arnove. Arnove has put together a collection of 25 essays by Chomsky, a champion of reporting the un-reported side of modern day events. A prolific writer, Chomsky has made a habit of picking up oft-discussed topics and ripping the veneer off them by sheer force of his genius and thinking. **THE ESSENTIAL CHOMSKY** features some of his most influential essays, which helped shape Chomsky's reputation as one of his generation's most credible dissidents. This book contains articles on linguistics and language, politics, Vietnam, 9/11, Israel and other criticisms of the unending belief that the US is somehow exempt from the rules which govern other nations. This collection, which spans over five decades, fairly represents the opinion of someone who is responsible for instigating a lot of research into language theory as well as provoking many into political debate and action.

A writer, researcher, political activist or teacher does not always have to be right to be judged important. To be sure, Chomsky has been right about issues just as often as he has been wrong. He is at his best when he encourages his readers to be sceptical; and given the history of governments, no utterance, document (official or unofficial) or decree coming from any government in the world should be believed without in-depth analysis and painstaking research.

However, Chomsky can sometimes be very callous with his facts. While writing about the (illegal and immoral) invasion of East Timor by Indonesia, he claims the US supplied 90 per cent of arms used. However, he does not provide any reference for this assertion. For those who wish to think critically about America and the world, this collection of Chomsky's writings is truly essential.

Mahul Brahma

SELECTION 2



Unravelling Mysteries

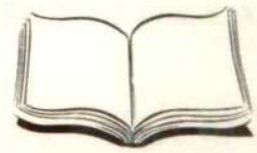
TITANIA HARDIE'S FIRST NOVEL innovatively bridges imagination and facts as she engages readers with mysterious riddles and fantastic descriptions. Hardie effortlessly unravels the legacy of the Stafford family. Will Stafford's inheritance of an ancient script and key sets the base for the storyline. This is aptly complimented by an entertaining and thrilling narrative.

The characterisation of Will, Alex, Lucy and Sian are all masterstrokes in this masterpiece. The effortless flow of narrative that switches from the present to the past. And the intriguing twists, like an unexpected death of one of the characters and the heart transplant of another provide readers with ample heartbreak and surprise.

All the while, Hardie nudges the reader to the next page. The book features extensive references to classic authors such as Shakespeare and Marquez and even references religious and mystic practices. In that sense, the book does bear a distant resemblance to Dan Brown's bestseller *The Da Vinci Code*, but **THE ROSE LABYRINTH** will certainly push the benchmark for debut novels.

Shisir Basumatari

ALERT



AN ILLUSTRATED LIFE: DRAWING INSPIRATION FROM THE PRIVATE SKETCHBOOKS OF ARTISTS, ILLUSTRATORS AND DESIGNERS

BY DAN GREGORY

HOW

Danny Gregory's latest work is a colourful collection of doodles, sketches, paintings and drawings of some 50 artists and designers. Gregory believes that art — particularly the sketches and drawings that artists make in their private journals and sketchbooks — can serve as inspiration for life. So, he includes interviews with each artist along with brief descriptions of each of their styles and approaches. Readers who appreciate the simpler things in life will delight in the book's colourful pages. Others will be drawn by the creativity of the artists hand — and his or her mind.

New-style Promot

THERE WAS A TIME WHEN INDUSTRIALISTS USED TO run companies in whose equity they had a minute share; they were called managing agents. The government thought it improper. In the mindless manner of governments, it banned managing agency in the Companies Act of 1956. Bans do not remove institutions. Managing agents stopped calling themselves by that name, and continued as before.

SANJAY SAKARIA

It is time to examine the quality of management in the companies that have emerged during India's economic renaissance

When the government realised that, it set up three financial institutions (FIs) — IDBI, ICICI and UTI. The first mostly gave loans, the last mostly invested in shares, and the middle one meddled in everything. The government manipulated capital issues to ensure that its daughters got a lion's share. With all that manouevring, it made its financial institutions the dominant corporate financiers. That too changed nothing. The FIs had no clue how to run the companies. They let the managing agents manage, and renamed them promoters.

Then came the bad years, beginning with the famine of 1965 and ending with the oil crises of the 1970s. The grand old industries, textiles and engineering, got into serious trouble. Promoters baled out, or sank with their companies, depending on which story one believes. Textile mills were taken over by the government, others were not. Both became museum pieces.

Then something weird happened. The invention of the personal computer in 1978 led to a great boom in information technology; the United States, its epicenter, ran out of programmers. There were many programmers picking their nails in decrepit Indian government institutions; the US beckoned them. When the stock of underemployed programmers ran out, street-corner schools sprang up all over India to train more; they too got one-way tickets and ended up in California.

There were, amongst those hordes of engineers, some clever ones who realised that it was much cheaper to employ Indian programmers in India than to take them to America. They started setting up IT firms in Bangalore, Hyderabad and other reservoirs of engineering manpower. Eventually, these home start-ups grew up into giants like Infosys and Wipro.

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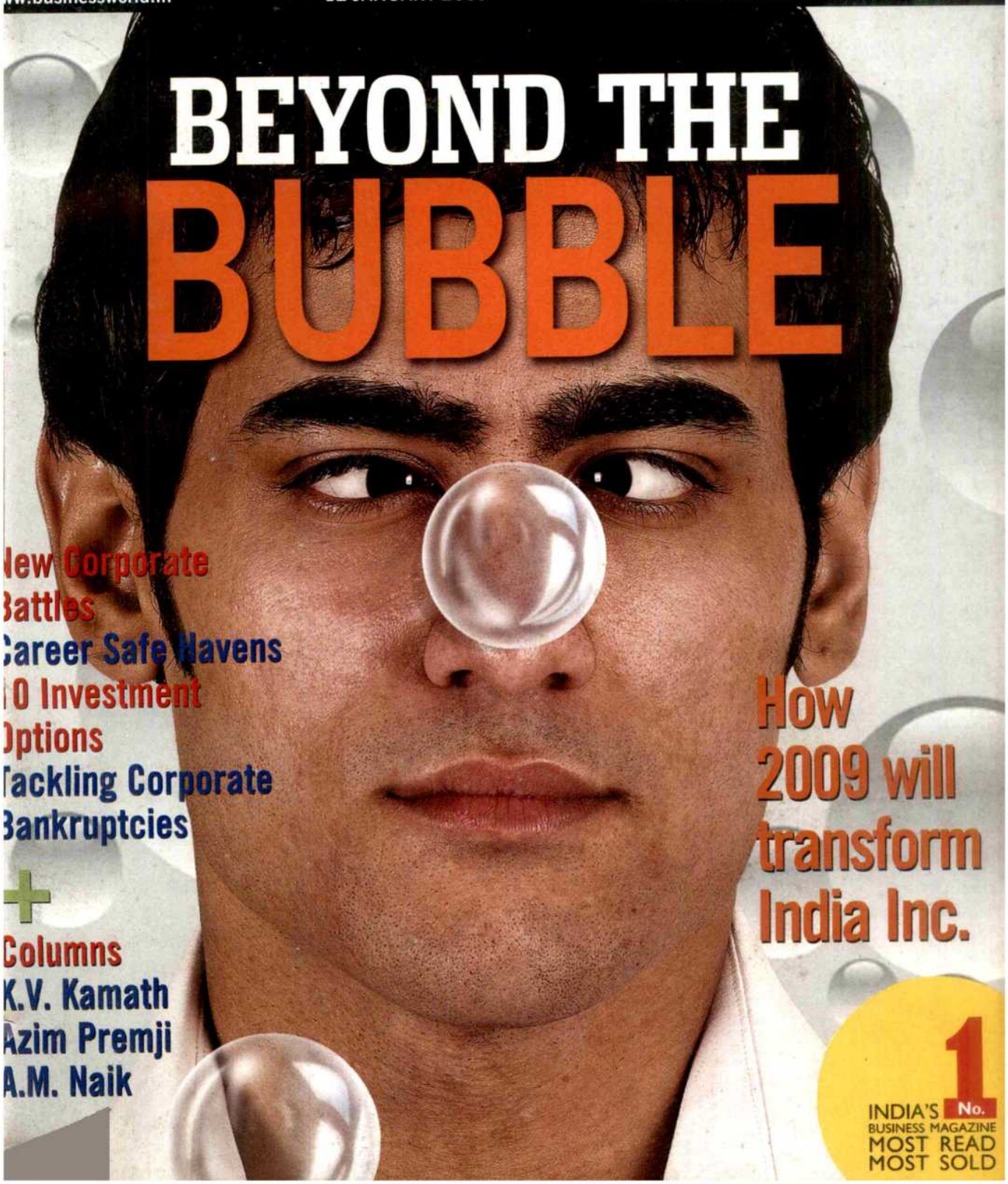

New Corporate Battles

Career Safe Havens

10 Investment Options

Tackling Corporate Bankruptcies

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K.V. Kamath

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How 2009 will transform India Inc.

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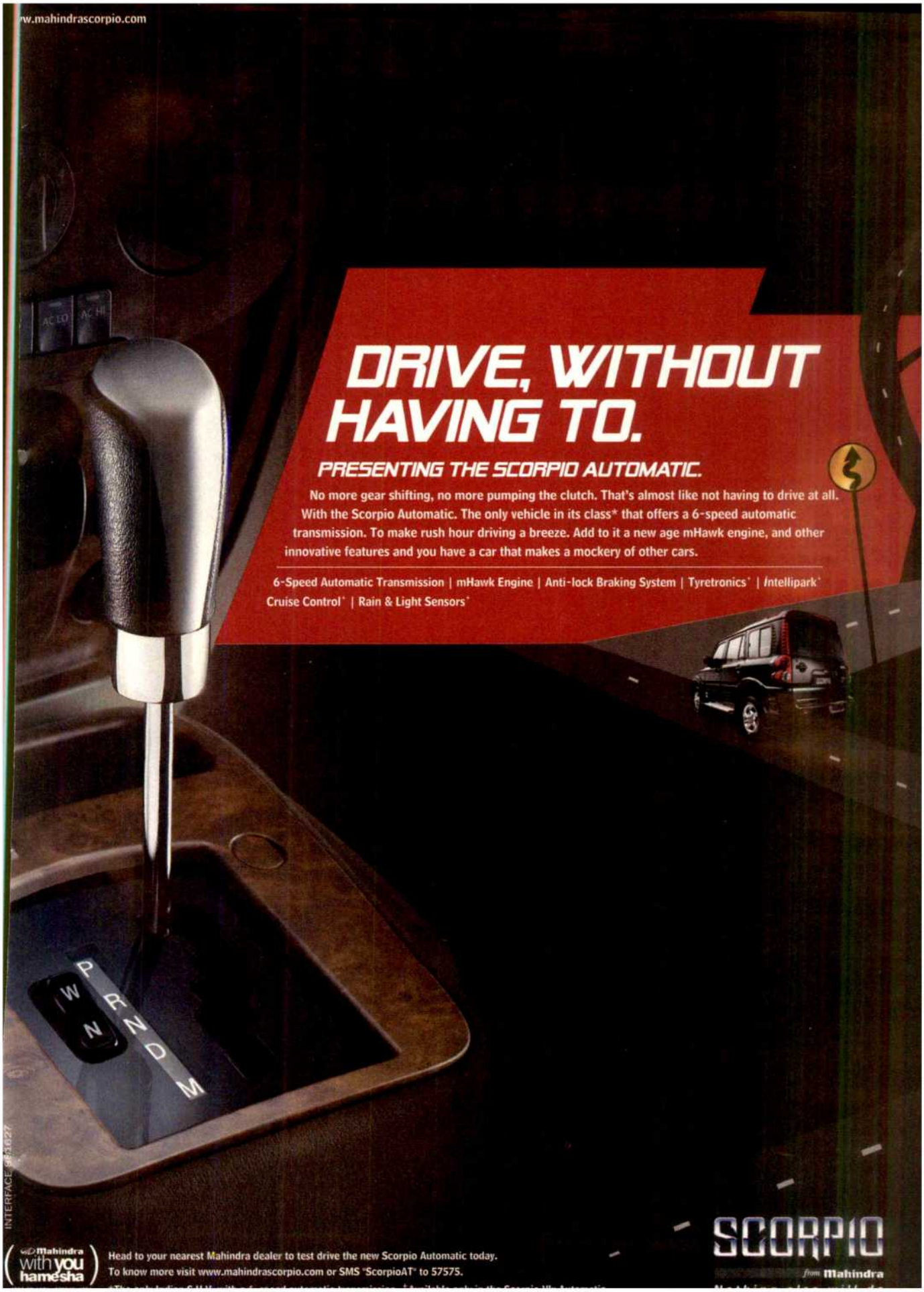
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Editor's Letter

Let's Get Real This Time

OUR PREDICTION IN the previous year-end issue, that 2008 would be a tough year, seemed prescient when it should have been obvious. All signs pointed towards economic problems — the unpeeling subprime crisis, food- and fuel-led inflation, and the rising fiscal deficit. But people were seeing things as they wished them, not as they were.

This year the mood is certainly more realistic. Companies are pruning ambitions and staff, consumers are conserving cash, and New Delhi is tightening its belt while loosening credit.

Yet ironically, last year, when soaked in euphoria and denial, India was better oriented and directed than this year, when it is embracing harsh realities. Let me explain.

Most of the sound — if late and deficient — measures New Delhi and India Inc. are taking to deal with the slowdown are merely tactical. The serious structural problems plaguing the economy lie ignored.

In contrast, last year, soaring food and fuel prices forced the country to confront some core issues — agricultural inefficiency, the high cost of doing business and falling global competitiveness, and the failure of our energy policy.

Now, New Delhi is back to what it is best at — administrative incrementalism. Paper tigers in the Reserve Bank are zealously tweaking interest rates and credit reserve ratios, and their cousins in the finance ministry are revelling in calibrating duties and taxes.

Meanwhile, in the West, China and Japan, the busting of the easy credit bubble is leading governments to re-order their economies and re-engineer the global financial system. Collectively, they will tackle the fallout of the subprime crisis in a year or so, and the global economy will basically return to normal.

But what is 'normal' for India? The bubble we have to bust is the one in which our leaders live, comfortably removed from the realities with which the rest of us struggle.

India Inc. and public intellectuals must use the financial crisis to push for real change in India's governance and policies. It is not that officialdom does not want to change, as much as they don't know how to change, and are scared of change. Constructive engagement with, and pressure on, the State can make all the difference, and help India move towards new realities in the new year.

jehangir s. pocha, editor

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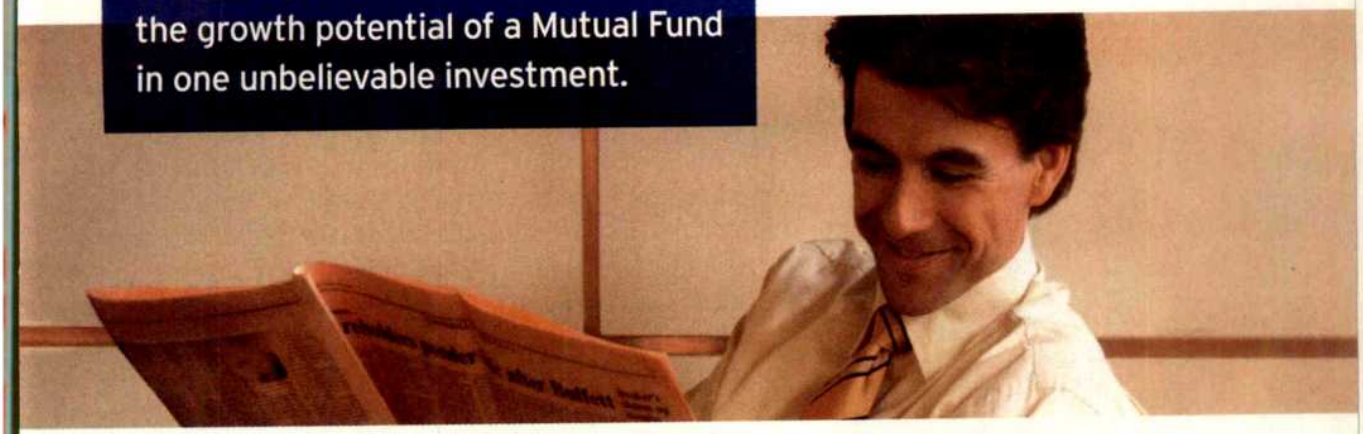

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Feedback your comments

Future Leaders

There is no doubt that all the 10 people to be watched in 2009 are talented enough to make it big this year ('10 People To Watch In 2009, *BW*, 5 January 2009). But, except Malvinder Singh, Chiranjeevi and Genelia D'Souza all others are lesser known personalities to many. Cricket being a passion in India, Cheteshwar Pujara is likely to attract a lot of attention. With the general elections due in 2009, Chiranjeevi may also leave his mark. The predictions made by *BW* may also be true for the rest. Though it was interesting to read the profiles, I would suggest that *BW* write a story on top five notable people to watch out in each and every field, so that it might be useful for young corporate people as well as for students who are studying at business schools and technology institutes.

U.Dineshkumar, Erode

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Wrong Promises?

It is appalling to know that in the tenth Five Year Plan, the power generation in the country was 50 per cent less than the planned target ('Unfinished Business', *BW*, 5 January 2009). The government is also facing the possibility of collecting tax revenues much below the Budget figures. On top of all that, the government has to ensure that the loan waiver scheme for farmers is effectively carried out. And now the government has announced stimulus packages worth thousands of crores to stabilise the ailing economy. Considering all the above it is anybody's guess how effective the next government will be — be it any political party — once they come to office later this year. What the government needs to do to propel the economy is to fuel domestic demand by lowering interest rates significantly so that consumers start spending again.

Anil Kumar, on email

Challenging Job Ahead

ICICI Bank has created a brand that is unique and distinct from all others ('Banking On Optimism', *BW*, 5 January 2009). If K.V. Kamath was able to steer ICICI Bank to the premier slot then his successor will have an equally daunting task in hand to maintain it and carry forward the rich legacy. Chanda Kochhar's rich and varied experience in various capacities will obviously give her a 360-degree view of the bank. Further, her determination to alter the face of modern Indian banking is a reflection of her confidence. She will also serve as an inspiration for all women looking to make a mark in India's corporate world.

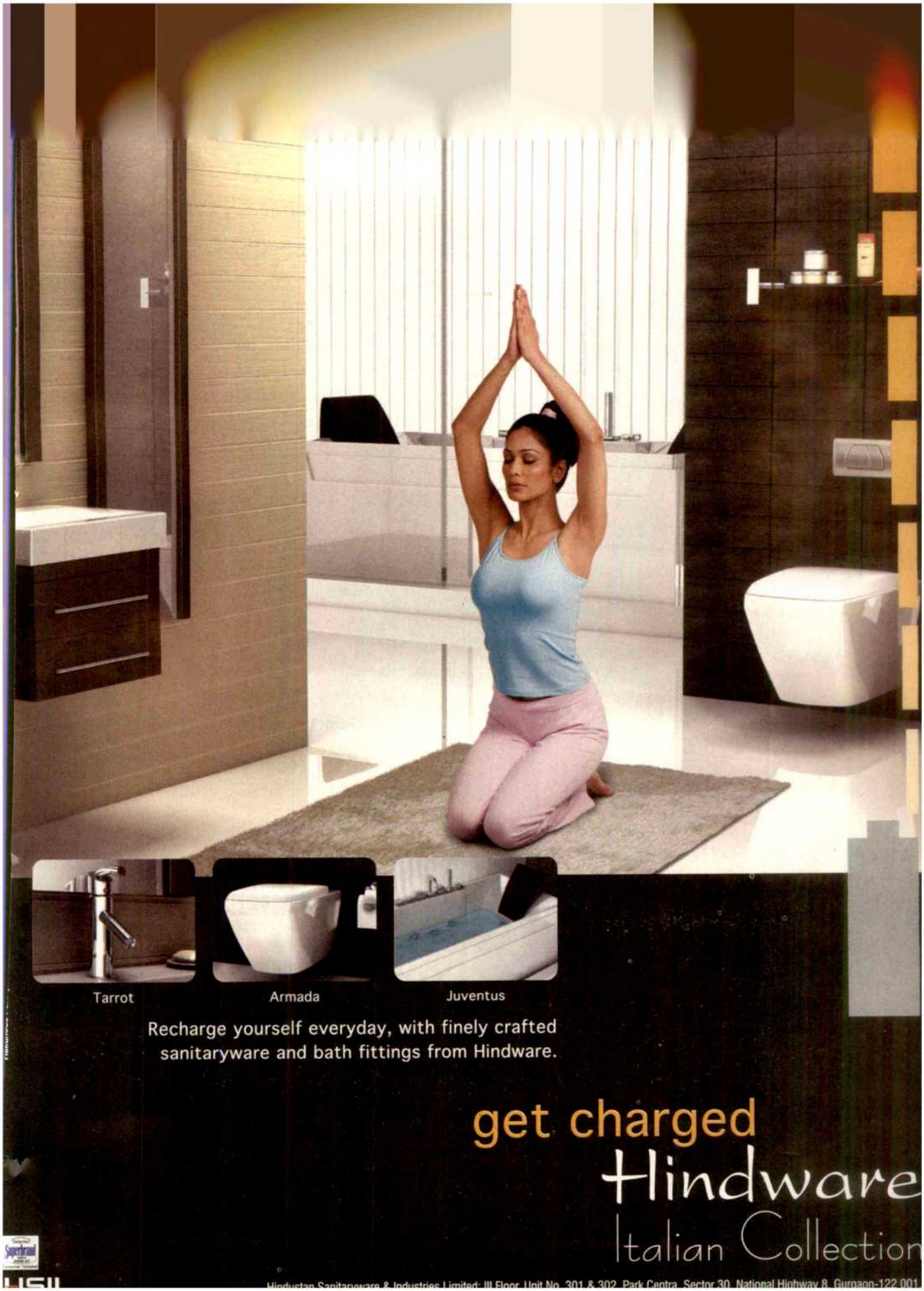
Srinivasan Umashankar, Nagpur

Corrective Measures

The reputation of Satyam, which won laurels for good corporate governance in the past, has taken a severe beating with the recent controversy ('A Design To Quit', *BW*, 29 December 2009). Some years ago ITC suffered a similar loss of confidence. Steps such as leadership change and induction of an upright former bureaucrat as an independent director helped redeem the situation. ITC has regained its glory since then. The promoters of Satyam should take similar corrective steps to retain their rightful place in the IT sector.

Srinivasan Umashankar, Nagpur

Letters may have been edited for brevity.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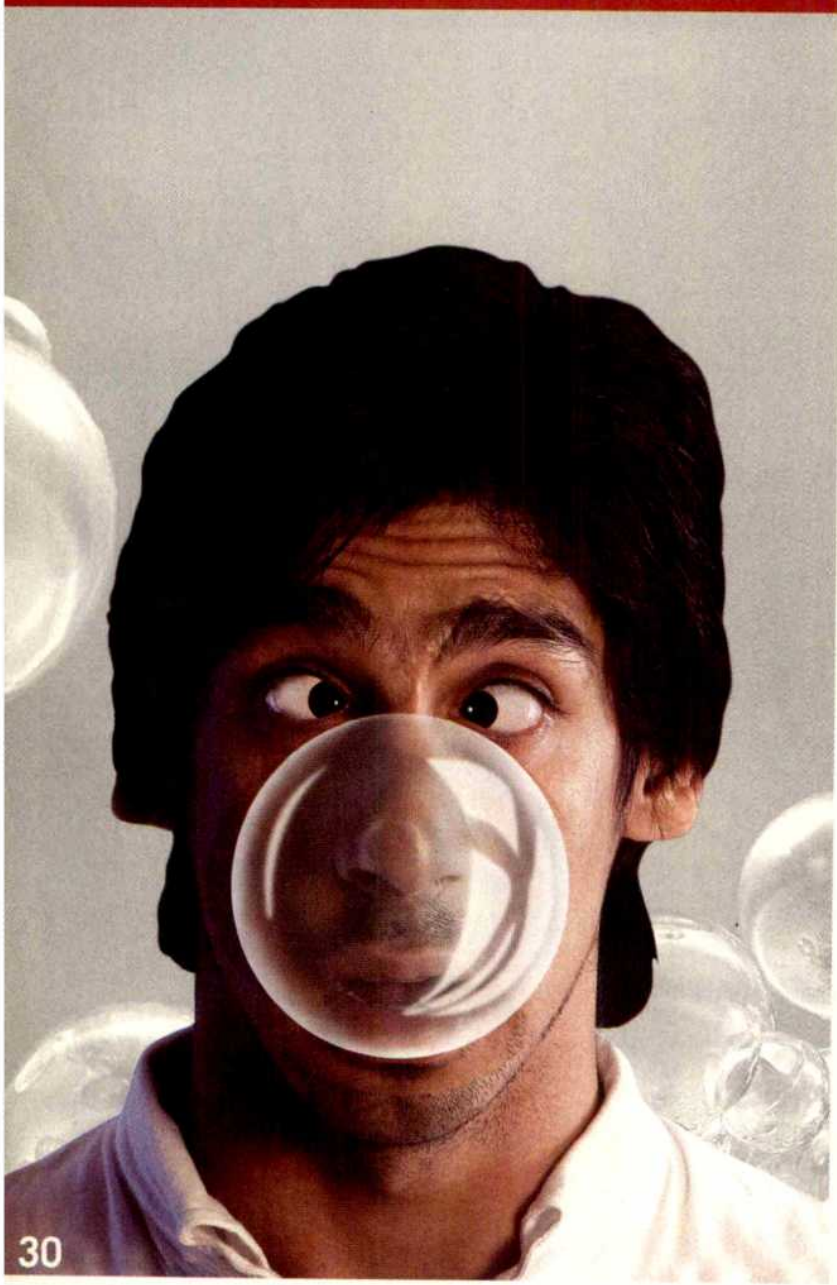

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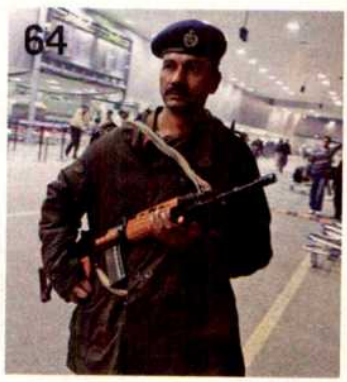

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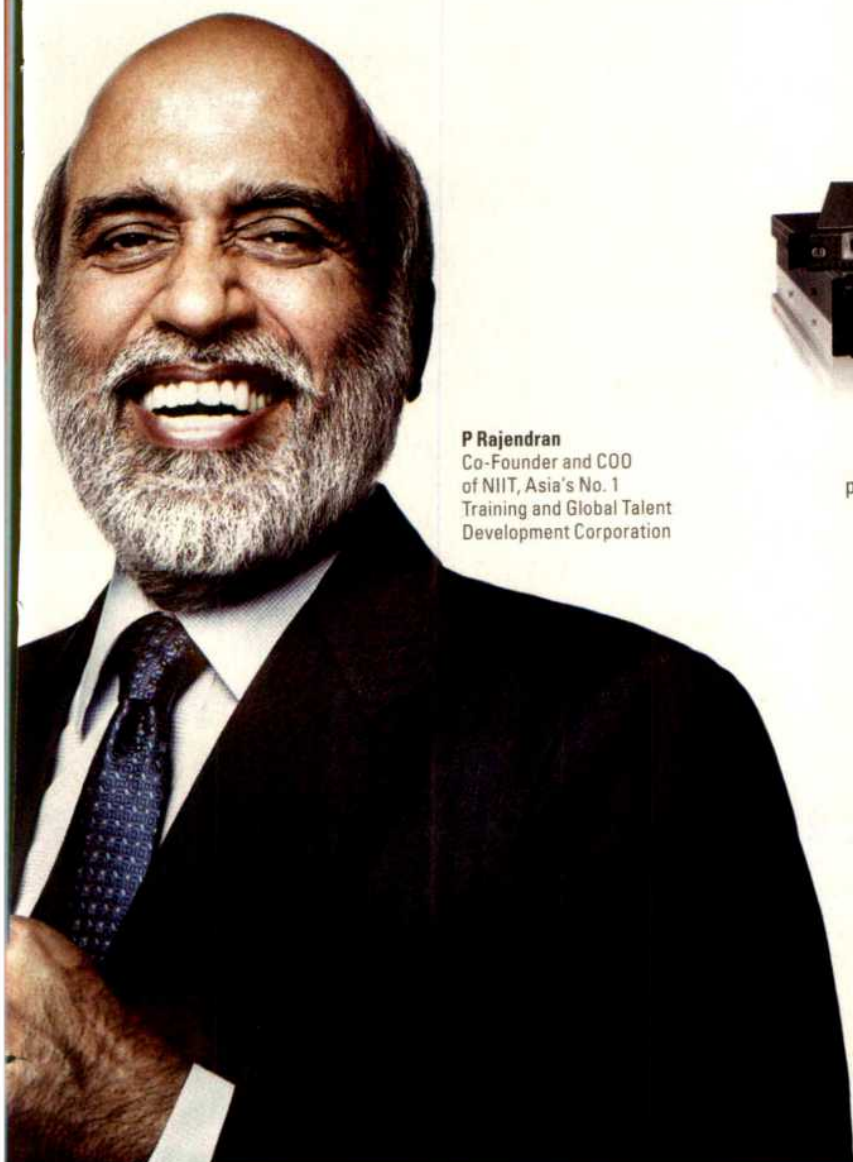

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In A Security Jam

Dysfunctional jammers raise concerns over the government's terror preparedness

AP

NOT FOOL-PROOF: Prime Minister Manmohan Singh and Telecom Minister A. Raja at MTNL's 3G launch

ON 10 DECEMBER 2008, the cellphone jammers in Parliament building failed, resulting in mobile phones ringing inside the Rajya Sabha. "It could have proved fatal," says Gautam Balakrishnan, director of Mumbai-based telecom analysis firm, Optsoe Consultants. "Technically, bombs can be triggered using such loopholes."

Terrorists have used wireless technology in the past to prepare for attacks. There is reportedly enough evidence to support the fact that the Mumbai siege was coordinated using mobile and satellite phones. The terrorists who attacked Ahmedabad had the audacity to use the W-Fi network in India to claim responsibility for their infamous acts. The Parliament building itself has been a target of terror attacks in 2001.

Members of Parliament are allowed to take cellphones inside but they are jammed. The jammers installed in the Parliament building, however, have not been upgraded to accommodate 3G services, launched by Mahanagar Telephone Nigam (MTNL).

MTNL Chairman and Managing Director R.S.P. Sinha says the company had informed the security to upgrade the jammers in the last session. "We are upgrading the hardware that can adjust to any kind of frequency. It is being worked out with operators and security agencies," says an official who manages the information technology network inside Parliament Secretariat.

"The service should have been launched only after proper coordination was done... all operators offering 3G should get this clearance," says Yashwant Sinha, former finance minister and Rajya Sabha member.

M. Rajendran

55 billion dollars. The market potential of infrastructure management services, according to Nasscom.

QUOTE OF THE WEEK **"Well, you know, that's something, obviously, that, you know... I think that, um..."**

— US SENATE HOPEFUL CAROLINE KENNEDY, ON BEING ASKED ABOUT TAX CUTS FOR THE RICH

WOMEN'S RESERVATION BILL

On Merit

Women judges want gender to be kept out of judicial appointments

WOMEN ARE STANDING up for merit. As the 108th Amendment Bill 2008, popularly known as the Women's Reservation Bill, comes up for passage in parliament, several former women high court judges are stressing merit rather than gender-based appointments for women in the judicial system. The Bill calls for a reservation of 33 per cent for women across all fields. Much applauded by politicians as a move to liberate women, the Bill is now being challenged — by women.

Of 603 high court judges, 42 are women, ranking India lower than most countries: 30 per cent of Canadian federal court judges are women. The Parliamentary Standing Committee on Personnel, Public Grievance, Law and Justice has claimed that "the judiciary is unable to comprehend the social flavour of legislation" since it has inadequate representation from "weaker sections" of the society.

True, there are fewer women judges today, but that's because fewer women took to the legal profession until recently. Women judges are sticking by merit-based appointments citing the changing landscape; the proportion of women in lower courts is increasing, and more girls are now opting for law school. Thus the argument for equal opportunity rather than gender equality.

Manashwi

ABP

ON THE OTHER HAND: Most women politicians hail the Women's Reservation Bill as a move to liberate women

Global NEWS

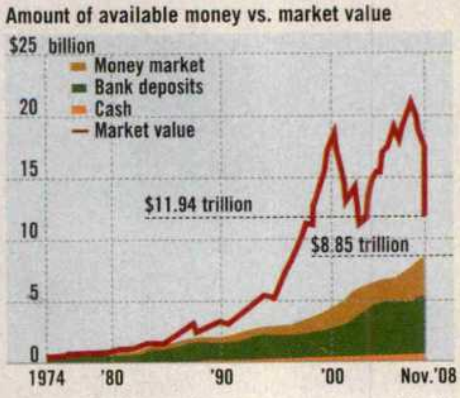
Sheikh Hasina Wajed, the daughter of Bangladesh's founding leader Shiekh Mujibur Rehman, has won the country's first election since 2001 in a landslide, crushing the Khaleda Zia-led Bangladesh Nationalist Party-Jamaat-e-Islami combine. Hasina's Mohajot alliance won 263 of the 300 seats in parliament.

HANDFUL OF CASH

Americans have not had this much money to buy stocks for almost two decades, which may signal a rebound to the stock market.

$8.85 trillion = 74% of market cap of US companies

Amount of available money vs. market value



Source: Federal Reserve Bank of St. Louis

Bloomberg

INSURANCE

RUNNING FOR COVER

AT A TIME WHEN INSURANCE FIRMS have been unable to provide individual cover for terminal illnesses, the labour ministry has mooted an idea to include HIV-AIDS as part of group insurance cover for employees in a draft note.

Insurance companies are worried, since they have no mortality and morbidity experience to measure the occurrence of AIDS. Also, AIDS increases the probability of other ailments, which makes it difficult to pinpoint the cause of death.

If this draft note, which is circulating in Parliament, becomes a law, then it would allow the Insurance Regulatory and Development Authority to draw up guidelines to insure AIDS.

General insurers could get together and create a terminal illness pool or a pool specific to AIDS to cross-subsidise claims arising out of any terminal disease or illness. As for coverage on AIDS, companies could end up paying much more. Even though it is the right step forward, it may not be very welcome.

Vishal Krishna

A BURNING CONFLICT

Smoke rises from a destroyed Hamas government building following an Israeli air strike in Gaza City on 30 December 2008. Israeli aircraft dropped at least 16 bombs on five Hamas government buildings in a Gaza City complex, setting them afire, witnesses said. Rescue workers said 40 people were injured.

AP

PHARMACEUTICALS

Wrong Dose

Government should take the lead to curb unethical pharma marketing

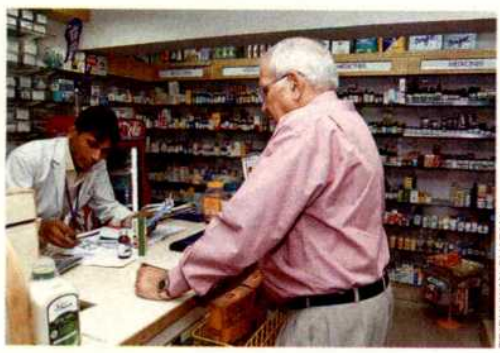
PHARMA FIRMS INDUcing doctors to prescribe their drugs is not new. But the government seems to have only recently woken up to such unethical promotional tactics.

The Department of Pharmaceuticals has written to industry associations such as the Indian Drug Manufacturers' Association (IDMA) to step up self-regulation. It wants IDMA and other associations to strengthen the ethical code of conduct of their members, and take action against those who violate it.

But associations can only bark at their members, not bite. Big companies are known to walk away from associations that do not toe their line or simply ignore them. A code governing pharmaceutical marketing practices needs to be vigorously enforced.

The State should take the lead.

Gauri Kamath



TRIBHUWAN SHARMA

CORPORATE

BLOOMBERG

Bolt from the blue

US-BASED DOW CHEMICAL HAS SUFFERED A double blow. Its $17.4-billion petrochemical joint venture with Kuwait collapsed after the oil-rich state decided to cancel the deal. The joint venture was a key part of Dow Chemical CEO Andrew Liveris's plan to reduce the company's reliance on commodity products and gain access to lower-cost petroleum. In July, Dow Chemical had agreed to buy Philadelphia-based Rohm & Haas for $13 billion. Now, the acquisition seems doubtful.

Reality Check

Year 2008 was one of the most devastating ever in terms of natural disasters, according to Munich Re, one of the world's biggest re-insurance companies.

GEMS & JEWELLERY

TO TOUCH OR NOT TO...

SANJIT KUNDU

THE TOUCH-N-FEEL culture of buying jewellery may be passé. Online buying may soon be in. Mehul Choksi-owned Geetanjali Gems and Jewellery will be the first branded jewellery seller to bring all its brands — 25 including Gili, D'damas, Asmi, Nakshatra — on the e-tailing platform. It expects this new model of selling to contribute about 3-5 per cent to the total sales by 2010.

Going by eBay India's census 2008, Geetanjali may not be aiming too high. It says jewellery is one of the most transacted items online. But, then, eBay never sold branded jewellery.

So, can buying Gili and Nakshatra diamonds online provide the same experience as traditional jewellery buying? Moreover will there be enough checks and balances in place to ensure trustworthiness and hassle-free transactions?

Janhavi Abhyankar

TOP 10 LISTINGS

BEST CITIES TO VISIT IN 2009

1	Bristol, UK
2	Buenos Aires, Argentina
3	Gdansk, Poland
4	Washington DC, US
5	Vienna, Austria
6	Cape Town, South Africa
7	Copenhagen, Denmark
8	Fes, Morocco
9	Seattle, US
10	Vilnius, Lithuania

Source: DK Eyewitness Travel Guides

Dainik Bhaskar

MY FM enjoys 50% more listenership...

...Compared to Big FM in Chandigarh
& Radio Mirchi in Raipur

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www.myfmindia.com

*Source: Market survey conducted by Hansa Research Group on listenership pattern of male/female (18-34 years), September 2008.

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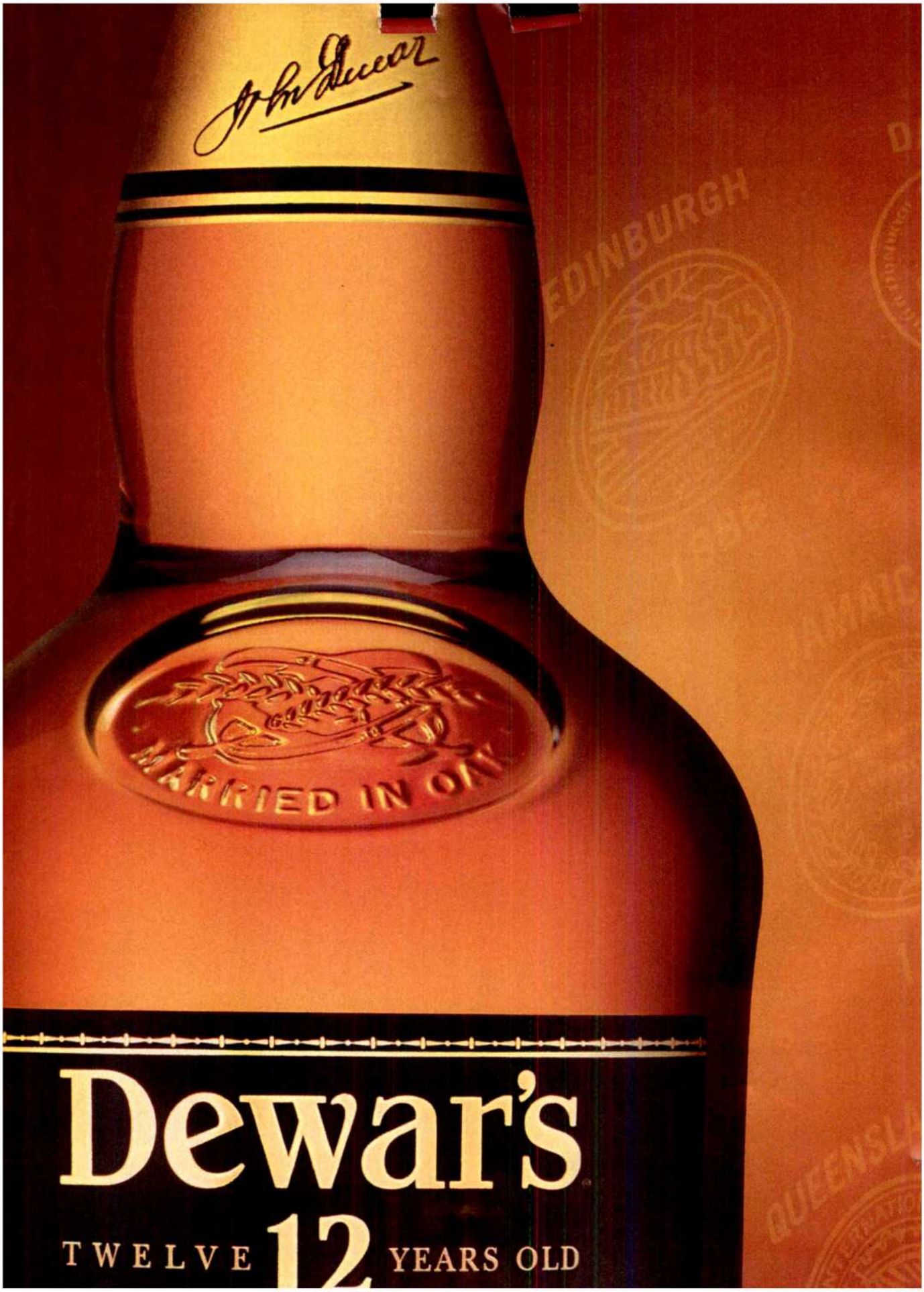

John Dewar
EDINBURGH
MARRIED IN OAK
Dewar's
TWELVE 12 YEARS OLD

A BLEND APPRECIATED IN ALL ITS GLORY.

As one of Scotland's most awarded whiskies, the House of Dewar's has to its name over 200 awards and medals since the first Edinburgh Silver awarded in 1886, including several gold awards at Paris, Greece and the prestigious Monde Selection - Grand Gold, to name a few. Further bestowed upon this acclaimed Scotch, are the Royal Warrants issued by every British Monarch since Queen Victoria. That's not all. The superior quality in every drop of Dewar's has been reaffirmed with 38 new medals this year including 22 gold and best-in-class for Dewar's 18.

Lying at the heart of a prized taste is a blend created from the finest Scotch whiskies from different regions of Scotland. **All the whiskies carefully selected are at least twelve years old.** The Master Blender, Stephanie Macleod then allows them to rest for a further period in exclusively reserved vintage oak casks. This time-honoured **'Marrying Process'** ensures that their individual flavours and aromas harmonise to achieve the perfectly balanced and exceptionally smooth Dewar's 12 & 18 Year Old. Further rendering a rich sweetness and an elegant finish to Dewar's is the Aberfeldy single malt. Its fuller heather and honey notes are truly a mark of distinction.

So enjoy a rich smoothness beyond words that your taste buds will at once discern, as you hold in your hand one of the most frequently awarded Scotch whiskies, enjoyed in over fifty countries around the world.

Idea's new home

Mumbai-based Idea Cellular, which recently entered the Karnataka market by acquiring Spice Communications, is planning to invest Rs 300 crore in the state over the next year. The Aditya Birla Group also plans to hike its 40 per cent coverage of the 57.3 million population in the State to 78 per cent by March 2010, says Sanjeev Aga, managing director of Idea.

BLOOMBERG

Human touch

PricewaterhouseCoopers (PwC) has acquired ECS, an operations and human resources consultancy firm, from Eicher Goodearth. "With ECS's operations and HR skills and capabilities, PwC can enhance its offering to clients and continue to distinguish our consulting services," says PwC chairman Ramesh Rajan in a statement. ECS, formerly known as Eicher Consulting, provides operations and HR consulting services for companies in the manufacturing and financial services sectors.

Power plans

Tata Power Trading Co., a wholly-owned subsidiary of Tata Power Company, has signed a power purchase agreement (PPA) with Chennai-based Spice Energy group to purchase the entire output from its upcoming 2,000-MW power project in Cuddalore in Tamil Nadu. "We are setting up a coal-based thermal power plant and have concluded the PPA with Tata Power," says D. Sundararajan, CEO of SRM Energy, a Spice Energy group company.

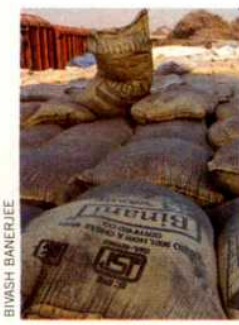
BLOOMBERG

Ripple effects

Anticipating a further reduction in interest rates by the central bank, Punjab National Bank has announced a 50 basis points cut in its benchmark prime lending rate (BPLR), from 12.5 per cent to 12 per cent, with effect from 1 January 2009. This will result in a reduction in all loans linked to BPLR, including retail, agriculture and micro, small and medium enterprises loans. With this, PNB's lending rates will be the lowest among its peer banks.

Cementing future

Singapore-based Stansen Holding has picked up a 9.1 per cent stake in Binani Cement, a subsidiary of the Binani group. Stansen bought the stake from Ganesha Prime Holdings, the Mauritius-based private equity arm of Credit Suisse.



BIVASH BANERJEE

BW-THOMSON REUTERS M&A DEAL TRACKER

December The Asian M&A market saw 7,952 deals worth $303.95 billion as on December 2008. China emerged as the largest market in the region with 2,913 deals worth $99.30 billion.

Top Indian deals

TARGET	NATION	ACQUIRER	NATION	DEAL SIZE ($M)
Citi Technology Services	India	Wipro	India	127.00
Hirco Developments	India	Hirco	Isle of Man	95.50
Minrad International	US	Piramal Healthcare	India	44.80
Lifetree Convergence	India	Tecnomen Oyj	Finland	44.00
Deepak Cables (India)	India	IDFC Private Equity	India	42.10
Jaypee Hotels	India	Jaiprakash Industries	India	29.30
SS Oral Hygiene Products	India	Colgate-Palmolive (India)	India	00.20
Info Network Management Co.	India	Yahoo! Inc.	US	NA
RPG Cellucom India	India	Cellucom FZCO	UAE	NA
SKG Power Ventures	India	Entegra	India	NA

Figures for 14-27 December 2008

Top Asian markets

Figures for 1 January-29 December 2008

Learning curve

Mumbai-based Core Projects & Technologies has acquired the K-12 division of US education firm The Princeton Review for $20 million, through the company's US subsidiary, Core Education & Consulting Solutions Inc. The buyout will add $24 million to the global revenues of Core Projects & Technologies. The deal includes the acquisition of products and solutions, along with management team of The Princeton Review.

African find

Italian oil and gas company Eni has signed an agreement with the government of Gabon to explore oil and gas in the

BLOOMBERG

central African country. Eni has bagged six high-potential licences (two offshore and four onshore), covering a surface area of more than 8,000 sq. km. Gabon produces 240,000 barrels of oil per day.

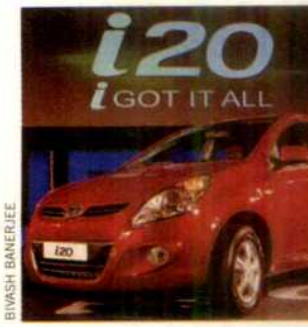
New honcho

Optical storage device maker Moser Baer has appointed Rajiv Arya as the CEO of its solar photovoltaic business. Arya was the chief operating officer in the company's wholly-owned subsidiary — Moser Baer Photovoltaic.

Lowering fare

Jet Airways has reduced fares by 15-40 per cent in response to the steep fall in aviation turbine fuel prices. "The fare cut will be across all domestic sectors," says a company spokesperson. Civil Aviation Minister Praful Patel had repeatedly asked private airlines to pass on the benefit of the sharp drop in aviation fuel prices to passengers. State-owned Air India announced a nominal fare cut a few days ago. Vijay Mallya's Kingfisher Airlines has also announced a fare cut from next month but has not indicated by what percentage the reduction will be.

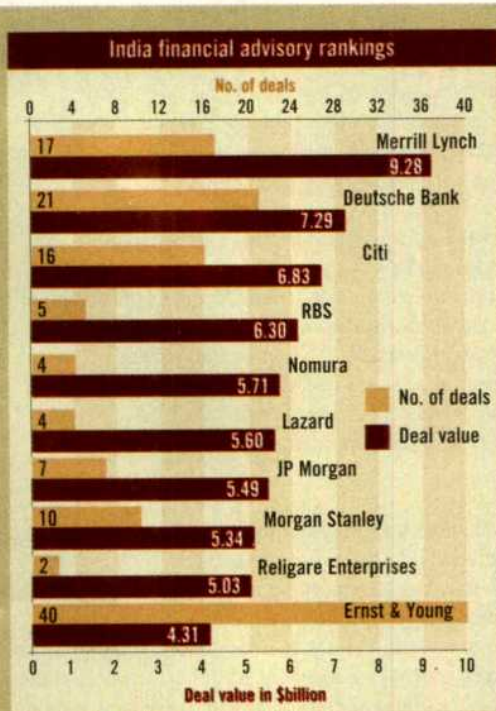
SATHEESH NAIR



BIVASH BANERJEE

Premium demand

Hyundai Motors India has launched i20, its second sedan in the compact segment after i10. "The high-end compact segment will grow more rapidly than other segments in the coming years," says Heung Soo Lheem, managing director of Hyundai Motors India. i20, which will be available in three variants, is priced between Rs 4.80 lakh and Rs 5.80 lakh.



Figures for 1 January-29 December 2008

Top Asian deals

TARGET	NATION	ACQUIRER	NATION	DEAL SIZE ($M)
Focus Media Hldg-Digital	China	SINA Corp.	China	1,374.283
ProLogis-China Operations	China	GIC Real Estate	Singapore	1,300.00
Shanxi Coal Import-Asts	China	China Petroleum Jilin Chem	China	445.10
Jiangsu Shagang Group Huaigang	China	Gaoxin Zhangtong Co.	China	386.61
Shenzhen Zhongji Tech*	China	Jilin Wuhua Group Co.	China	296.86
ING Life Insurance Korea	South Korea	ING Groep	Netherlands	264.40
PBL Media	Australia	CVC Asia Pacific	Hong Kong	232.16
Ocmador Buchon-Shopping Mall	South Korea	Hyundai Dept Store Co.	South Korea	198.64
Marathon Oil Ireland	Ireland-Rep	Star Energy Group	UK	180.00
Yunnan Metallurgical Grp	China	Shantou Bailian**	China	179.21

Figures for 14-27 December 2008 *Shenzhen Zhongji Tech Dvlp Co. **Shantou Bailian Industrial Investment Co.

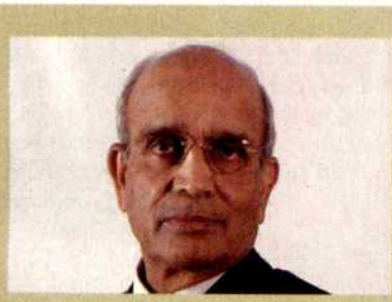
Figures are based on ultimate parentage, meaning that an M&A deal carried out by a unit abroad will still be counted as that of the home country, provided the overseas unit is majority owned by the parent. Deal value is the total value of the consideration paid by the acquirer, excluding fees and expenses but including liabilities assumed. If the acquirer is buying 100 per cent of a non-financial company from a currently-held percentage of less than 50 per cent, deal value is calculated by subtracting the value of any liabilities assumed by the acquirer and adding the target's net debt. US dollar equivalents are computed using the exchange rate at the time of the deal's announced date. League tables are credited proportionately among financial advisors involved in a deal whether the firm participated as target or acquirer financial advisor.

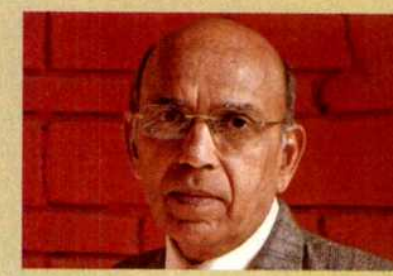
Log on to www.businessworld.in for the complete list

Quick Take

Has the concept of independent directors failed in India?

We asked... Kapil Aggarwal, director, commercial lines, Optima Insurance Brokers; Sushma Berlia, president, Apeejay Stya Group; R.C. Bhargava, chairman, Maruti Suzuki; Vinayak Chatterjee, chairman, Feedback Ventures, Prince Chaudhary, director, Durga Inc.; Neville Dumasia, head, governance, KPMG; Manav Garg, CEO, Eka Software; Virendra Jain, director, Midas Touch Investors Association; Tapan Ray, director-general, OPPI; Sunil Sapra, country manager, Watchguard Technologies; Smarty Pal Singh, head, Moen India; Saurabh Srivastav, chairman, IVCA; Krishnan Thyagarajan, MD, Quest Software, India





"No. It would be wrong to say that the concept has failed on the basis of just one incident."

R.C. Bhargava, chairman, Maruti Suzuki India

"No. Independent directors will play much larger roles in board decisions going forward."

Manav Garg, CEO & founder, Eka Software Solutions

"Yes, it has failed. In India promoter-controlled managements appoint all directors."

Virendra Jain, director, Midas Touch Investors Association

Yes 31%

YES BECAUSE: In India promoter-controlled managements appoint all directors including independent ones. The role of an independent director is very profound and requires artful balancing of sometimes conflicting interests. While they are expected to add strategic value to the board, they are primarily custodians of public shareholders. The concept of appointing independent directors has failed in India because of the following: (i) There are flaws in the way they are identified and appointed (ii) poor regulatory oversight (iii) nascent shareholder activism and (iv) low priority for principled corporate governance. One solution is to have two shareholders-nominated shareholder-directors. Only non-promoter and non-institutional shareholders should be involved in such a selection.

No 38%

NO BECAUSE: One case does not prove that the entire system is bad. The concept of having independent directors in companies is barely two decades old in Indian corporate history, so it is too early to make a judgement that the concept of independent directors has failed. Any system is as good or as bad as the people who handle it. In India the focus and legislation on protecting shareholder interests has a shorter history. The relevance of independent directors is an important aspect of ensuring good corporate governance in companies. However, at times due to the longevity of their association with the companies, they lose their objectivity and rely on the judgement of the management. Independent directors have much larger roles to play in board decisions going forward.

Maybe 31%

MAYBE BECAUSE: Many independent directors are really not independent in India. And more often than not they are not specialists in the area in which the company operates. This causes them to rely on management while taking crucial decisions. Independent directors need to be chosen by a panel that itself is independent of corporate influences. They are certainly expected to protect the interests of the company. However very often they are not privy to the entire information, and may tend to go with the management. It is really a matter of choice for the management of the company to share information with the independent directors and the latter has limited control over it. There should be a regulator who can monitor and assess the role of independent directors.

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The Latest Gold Racket

by ashok v. desai

CHAND MEHRA IS A STRANGE CHARACTER: HE IS A JEWELER who knows English. He went and did an MBA in the Peter Drucker School of Management of Claremont Graduate University in California, and came back with the ambition of making India a world power in gold jewellery. Of the world gold production of 3,000 tons, India consumes about a quarter. It is the world's largest market for gold, and hence naturally prized.

When World War II started in 1939, the British government had to devote all available resources to fighting the war. The Germans started sinking British ships, there was a shortage of shipping space, and it had to be rationed. Gold was quite inessential for fighting the war, so its imports were banned. After the War came independence and the ascent of socialists in India; they were even more contemptuous of Indians wanting to wear gold. So the ban stayed.

Taxing gold and jewellery brings little revenue; it only makes smugglers rich and nurtures terrorists

The market invariably finds a way around bans. When Arab countries suddenly quadrupled the price of oil in 1973, they became unimaginably rich overnight. They no longer had to work; they hired Egyptians and Indians to do the work for them. Hundreds of thousands of Keralans flew to work in Dubai and Abu Dhabi, and earned wages beyond their dreams. They wanted to send money to their wives in Kerala. A helpful man came and offered to do it for them. They could give Dinars to his men in Dubai, and he would ensure that equivalent Rupees would be delivered to their wives in the villages of Kerala in three days. His door-to-door service was more convenient than that of our nationalised banks, who were loath even to open branches in rural Kerala.

How did that man get Rupees? He bought gold with the Dinars, put them in fast boats, and delivered them on the coast of Gujarat and Mahrashtra. From there, his couriers delivered it to jewelers all over India. Once he had put his business in place, Indians hardly noticed that there was a ban on import of gold; they could get all the gold they wanted — at a price.

That man's name was Dawood. Chand's brainwave was that he would import gold, make really light, fancy chains with Italian machines, and sell them to fashionable Indians. But to do so he had to import the machines, and to import them he had to accept an export obligation. The finance ministry had imposed a condition of minimum 10 per cent value addition on jewellery exports; the margins on exports were so slim that he could not export.

If he could not export, Chand could not produce chains. If he could not produce chains, he could not service the bank loans he had taken. So he got simultaneously in trouble with the commerce ministry and with banks, and failed. That is when I came across him, and wrote about the irrationalities of government policy. I do not know whether P. Chiambaram read me or not, but when he became finance minister in 1998, he lifted the ban on gold imports and allowed its import through banks. Since then, most of the gold has entered the country legally.

That was ten years ago. Now Chand has managed to pay off the bank, and is back in business. But now he faces another hurdle. Dawood no longer brings gold in fast boats. He gets hold of Keralans who have been in UAE for more than six months. He gives them free tickets home. All they have to do is to carry 10 kilos of gold jewellery, which the Indian government freely allows. This jewellery is sold in India, and gives sufficient profits to Dawood to fund all his profitable and patriotic — read terrorist — activities.

Now Chand is campaigning for a ban on imports through these couriers. I disagree with him. But I see how the government has created a lucrative courier business for Dawood and his peers. The business no longer depends on a gold import ban; it depends on the fact that the import duty on gold is Rs 10.30 a gram, or 1 per cent, while the duty on jewellery is 10 per cent. By using a courier, Dawood saves this 10 per cent, plus value added tax of 1 per cent. This is a pretty fat profit margin — enough to finance a hundred terrorist attacks like the one in Bombay.

What should be done then? Gold and jewellery are too valuable per gram to tax reliably and efficiently; they can be easily smuggled, transported, manufactured and sold. So the best solution is to free them entirely of tax — of import duty, education cess, VAT and whatever else the governments care to call their taxes. Is it not unfair not to tax a useless acquisition of the rich like jewellery? No; tax the rich, not their jewellery.

The author is Consultant Editor of *Businessworld*.
ashok.desai@gmail.com

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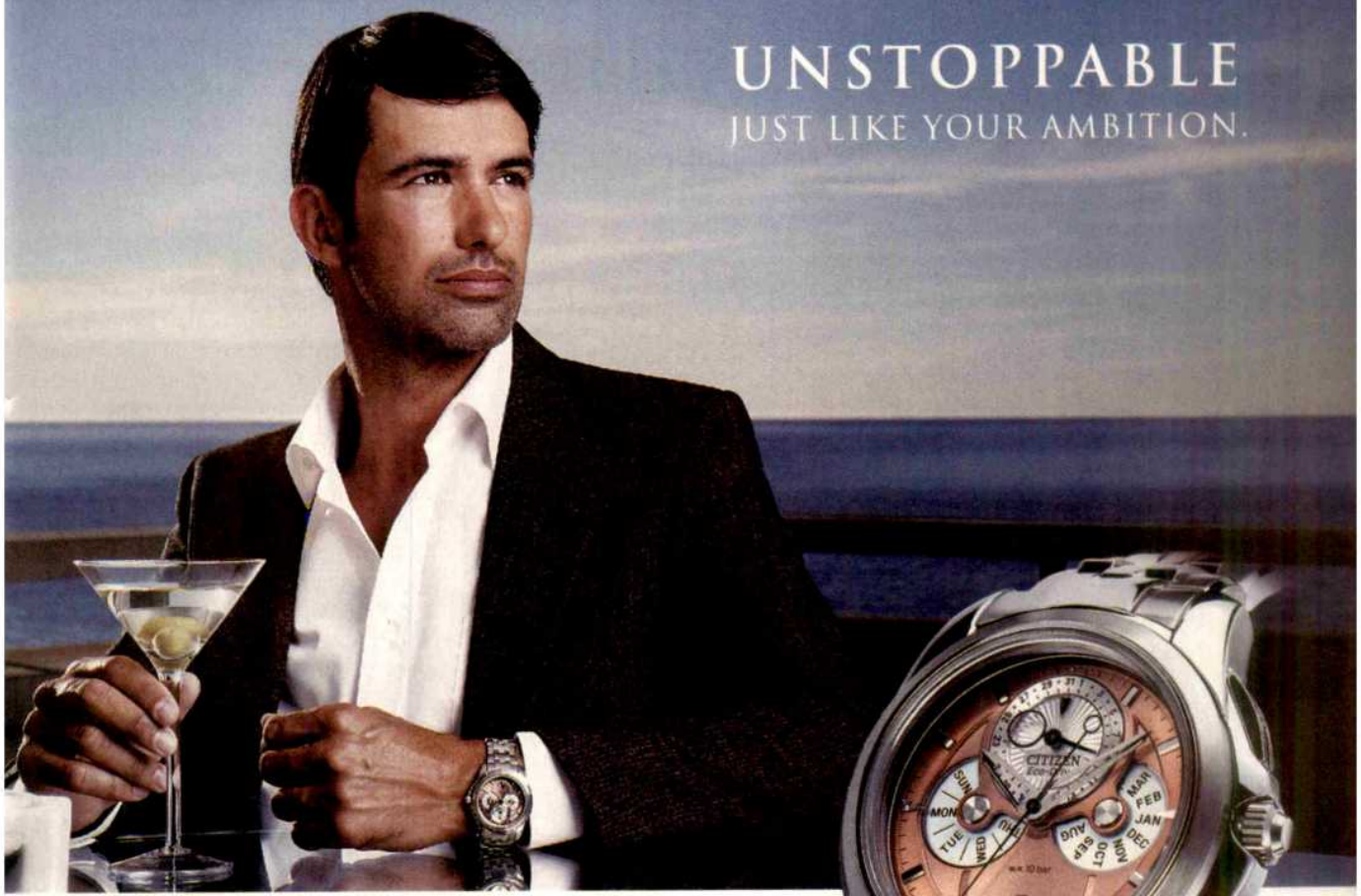

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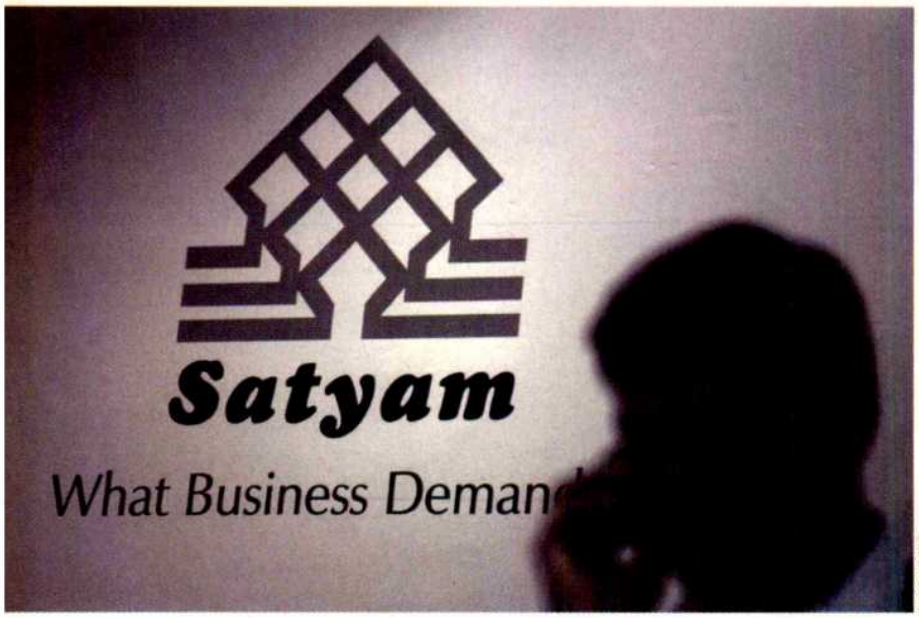
The Writing On The Wall

by Venkatesh Ganesh



BLOOMBERG

COUNT DOWN: The future of Satyam's present management will be decided on 10 January

Will Ramalinga Raju be India's first CEO to be forced out?

THERE IS A STORY THAT RAMALINGA RAJU'S GRANDfather — an enterprising farmer — ventured out of traditional agriculture and bought a sugar mill. The venture backfired, and the family lost a fortune. Flash forward to 16 December 2008: Raju announced a similar switch — 20-year-old Satyam Computer Services (Satyam) would 'diversify' into the realty business by acquiring two Raju family-run firms — listed Maytas Infrastructure and unlisted Maytas Properties.

This time around, institutional investors expressed outrage, forcing Raju to withdraw the proposal; industry watchers, analysts, commentators and management consultants called it a way to siphon off cash from Satyam's books to meet the debt repayment and cash obligations that the two Maytas firms had to meet. Raju's sons run the two firms and the family owns nearly 36 per cent of Maytas Infrastructure and 35 per cent in Maytas Properties.

Shaky Confidence

Raju's hasty announcement — without a board approval — and an equally quick retraction could make him the first forcibly removed CEO in India. "There is great likelihood of a management change when the Satyam board convenes on 10 January and Raju will be asked to step down," says Khozema Anajwalla, partner of accounting at Inde Global. Brokerage firms who slammed the stock, following the 16 December announcement, also feel that a change in the top management should be something that the board needs to look at urgently.

"Satyam has 61 per cent institutional holding who would be looking to either reduce their stake or engineer a deal that would ensure changes at the top," says Nishant Verma, vice-president of Bangalore-based Tholons Capital. It is learnt that institutions are gathering support to push for a new CEO in the upcoming board meeting. "There is a lot of talk amongst institutions to vote for a new management in the light of even problems arising out of bribery in outsourcing contracts," says an Indian fund manager who manages some Satyam portfolios.

Raju postponed the board meeting by a fortnight and is mustering support to retain management control. A website, *www.ramalingaraju.com*, run by one of Raju's nephews, extols Raju's virtues as an entrepreneur. It rubbishes media reports as giving a "completely different and untrue image about a soft, humble and good-natured individual".

Satyam's investor relations team is believed to be calling up broking houses and research analysts to explain their position and seek support. "Satyam did not — and does not now — intend to retreat from IT and BPO services in any way, and going forward, Satyam will focus extensively on these markets," Raju says in an e-mail to Satyam employees.

Clearly, there is confusion. "This is a U-turn from their earlier stance that diversification into other businesses such as realty was the way forward," says Anajwalla. Peter Schumacher, CEO of Value Consulting, agrees: "This raises doubts in the customers' mind about the management's motives and commitment to the business."

The noises made by Raju may not have assuaged employees' uncertainty, but they seemed to have been enough for Aberdeen Asset Management, the largest institutional investor with 6.6 per cent stake. On 17 December, Adrian Lim, fund manager at Singapore-based Aberdeen, had called the acquisition announcement "shocking", adding that his firm would not tolerate a change in Satyam's core business. On 30 December, he said: "They need to work hard and quickly to rebuild their reputation."

But Aberdeen has been buying Satyam shares

EXIT STRATEGY

Over the years, Satyam promoter Ramalinga Raju has diluted his family's stake in Satyam.

	Promoter holding (%)
March 2001	25.60
June 2001	22.89
December 2001	22.40
March 2002	22.26
June 2002	22.02
December 2002	20.87
March 2003	20.74
December 2003	18.30
March 2004	17.35
June 2004	16.78
December 2004	15.71
March 2005	15.67
December 2005	14.07
March 2006	14.02
September 2006	9.15
December 2006	9.11
March 2007	8.80
December 2007	8.76
March 2008	8.74
June 2008	8.62
September 2008	8.61

Source: Company quarterly reports

since the botched acquisition proposal was called off. It acquired 305,000 shares, or 0.095 per cent, on 17 December, and another 320,000 shares — 0.1 per cent —on 20 December.

Time For Change?

There are credible reports that the Raju family now owns just about 5 per cent of the stock. This is down from 8.61 per cent after institutions it had borrowed from, sold shares pledged with them. That makes Raju a professional manager rather than a promoter-owner; his performance could be assessed accordingly. So, murmurs of a possible change in management are beginning to grow louder.

One thing seems certain: that a change at the helm will be on the agenda when the board meets in the plush 2,000 sq. ft hall at Satyam's Hyderabad headquarters on 10 January. Raju could be asked to step down from the company that he nurtured from its infancy till it became a $2.14-billion firm. Could this indeed be the first instance of a forced management change, in India's corporate history?

With inputs from Dhanya Krishnakumar
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Expression of Interest

National Bank of Agriculture and Rural Development (NABARD) invites Expression of Interest (EOI) from reputed consultancy organisations and research institutes for undertaking a study on "Organised Agri-Food Retailing and Supply Chain Management". The study will be undertaken on all-India basis covering different states and all major agricultural commodities, including fruits and vegetables. The sample for the study should be representative of the various formats and stakeholders (both organized and unorganized) in the value chain so as to reflect the ground realities. The study will be a combination of both literature scanning and field work.

The EOI may be forwarded in two separate sealed covers superscribed "Organised Agri-Food Retailing and Supply Chain Management-Technical Proposal and Financial Proposal" to the Chief General Manager, Department of Economic Analysis and Research, NABARD, 4th Floor, Plot No. C-24, 'C' Block, Bandra-Kurla Complex, Post Box No. 8121, Bandra (East), Mumbai 400 051.

For further details of the Study, please visit the website www.nabard.org

The last date for sending the EOI is **23rd January 2009**

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Flight Of Fancy

by Sreevalsan Menon

Despite claims, airlines are unlikely to break even soon

WHEN VIJAY MALLYA DECLARED LAST WEEK THAT HIS Kingfisher Airlines could break even before the end of the year, did he know something the rest of us didn't? For the July-September quarter, the airline's losses widened to Rs 483.2 crore. Mallya also said he wants to raise $400 million from private equity investors. The global airline industry is poised for even bigger losses in 2009.

Kingfisher's rival Jet Airways does not make such claims, but media reports suggest that the two airlines could be close to breaking even; they have even managed to bottle the genie: higher aviation turbine fuel (ATF) prices that have declined by 66 per cent since September 2008, thanks to the steep drop in global crude prices.

Last week, both airlines announced significant cuts in their air fares. Will that improve passenger traffic volume? "ATF prices may be down 66 per cent, but capacity addition has also significantly slowed down," says Anirudha Dutta, an analyst at CLSA, a broking firm. "I do not expect Jet to turn profitable in the next two years and also don't expect it to be able to raise equity in the next 6-9 months."

So, the optimistic outlook is unreal. A recent survey by the International Air Transport Association (IATA), a body representing 230 airlines, says though oil price is now near $40 per barrel, the deepening recession and economic slowdown is driving industry losses through lower passenger traffic, which is down 1.3 per cent since October. IATA expects the industry to post $5 billion in losses in 2008 followed by another $2.5 billion in 2009 — the worst scenario in 50 years. Passenger traffic is forecast to fall 3 per cent and revenues by over 6 per cent in 2009.

What about our own airlines then? Jet's domestic break-even passenger load factor (PLF) is 63-64 per cent, says Dutta. With PLF at 67-68 per cent, Jet's short-term prospects may improve. But a veteran industry watcher who did not wish to be identified says thoughtless management decisions — including unplanned staff intake, poor route rationalisation and lack of co-operation in sharing ground infrastructure — are all responsible for the current dismal state of affairs.

"Rising labour costs, rapid fleet expansion, and intense price competition are responsible for the losses," says Shruti Balasubramanyam, an aviation analyst at Northbridge Capital in Mumbai. "And new players entered before existing players could stabilise their operations."

Add to that, the continuing economic slowdown, the terrorist attacks in Mumbai, and the entire industry may be flying by the seat of its pants. Airlines eat up lots of cash; the demand for capital is almost perennial. Success then comes down to the ability to raise money in these hard times. Mallya may be able to fund some of Kingfisher's needs out of his liquor business, but $400 million is a lot of money. Naresh Goyal may have experience in doing this on his side, but how long he can do this is open to conjecture.

Amitabh Chakraborty, head of research at Religare Securities, says the aviation business with its high fixed costs may find fewer investors in a slowdown phase. "Institutions may seek a charge on revenues or even a corporate guarantee. That may trigger a serious possibility of consolidation," he says.

"Stretch your mind and fly," says an African proverb. This is going to be a huge stretch.

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AP

FARE GAME: Jet Airways's Naresh Goyal (left) and Kingfisher's Vijay Mallya have slashed prices

BIVASH BANERJEE

Name Of The Game

by Mahul Brahma

As competition gets fierce, advertising gets even fiercer

HARD TIMES CALL FOR HARD, AND SOMETIMES blatant, strategies. The recent Horlicks-Complan 'spat' has once again brought comparative advertising to the fore. This time, competing brands seem to have almost come to blows.

GlaxoSmithKline Consumer Healthcare (GSK), which owns the Horlicks brand, recently took Heinz India's health drink Complan head on. Its advertisement did not beat about the bush when it said it has more nutritional content and is also cheaper than Complan. Heinz India retaliated claiming that the higher price that consumers were paying for Complan was for a much higher nutritional value.

Heinz moved the Bombay High Court in December 2008, challenging GSK's claim. GSK on its part questioned Heinz India's advertisement in the Delhi High Court. The cases will be heard in the first week of January.

Comparative advertising is not new in India. But this is the first time that ad campaigns have targeted competing brands directly. Earlier such advertisements relied on tricky lines that had enough ambiguity to keep consumers guessing. Remember Pepsi's 1996 campaign slogan "nothing official about it"? It was aimed at rival Coca-Cola, then the official sponsor of the cricket World Cup. Coke responded by saying "*Baaki Sab Bakwaas*" (all others are nonsense), mocking PepsiCo's ads for 7 Up.

Udayan Paranjape, partner of brand consulting firm Vertebrand, says, "As competition rises, it becomes all the more difficult for products to make headway; the temptation to pull down the rival gets stronger."

There is no rule or law that prevents advertisers from hitting at their rivals. But Madhukar Kamat, president of the Advertising Standards Council of India (ASCI), says this kind of advertising is a one-off case. "It has been a practice in India that you don't name rival brands or denigrate them."

There are subtler ways of letting the consumer know the advantages of a brand. Car companies, for instance, have always made claims such as 'best mileage' or 'biggest boot space'. "But, this has not seen any retaliation because these can be proved and the claims are based on facts," says Paranjpe. That is more than can be said about the Horlicks-Complan episode. "Someone can always say his grandmother's banana powder or raggi malt is more nutritional."

High volume fast moving consumer goods such as soaps, detergents and salt have always been prone to comparative advertising, with campaigns obliquely bashing rival brands. Subscription-based, highly competitive segments such as DTH and telecom, though aggressive in their advertising have not yet resorted to such promotional tactics.

Harish Bijoor, CEO of Bangalore-based Bijoor Consultants, says, "These are situations where you poke into the eyes of your competitor because nothing else is working for you as other strategies have fatigued." Pepsi's Mountain Dew campaign 'Do the Dew', was twisted by its rival brand Coca-Cola, punning on the word 'Do'. "They see a rise in volumes and thus eventually gain by denigrating their rivals," says Bijoor.

Agrees a marketing expert. "This is an engineered marketing concept and in most cases, sales of the entire category goes up."

Well, that's total recall.

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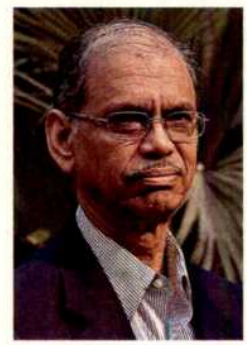
TRIBHUWAN SHARMA

BLUNT CAMPAIGN: In a recent ad, Horlicks said it is a better drink than Complan

Fragile Yet Indispensable

by nayan chanda

THE INTERNET HAS BECOME SUCH AN INTEGRAL part of modern life that, like the air we breathe, we take it entirely for granted. Like oxygen, its importance to us is driven home only in its absence. The damaged fibre-optic cables running along the Mediterranean seafloor that recently put internet access on the blink for nearly 100 million users from the Middle-East to Asia were a fresh reminder of our interconnected fate.



The snapped cables under the Mediterranean and Arabian Seas have put all virtual aspects on hold

For the second time in 10 months, a major communications breakdown was brought about by inadvertent damage to the thicket of fibre optic cables running under the Mediterranean and Arabian Seas, connecting the Atlantic with West and South Asia. With 95 per cent of the world's internet connections piped through these undersea cables, the rupture near Alexandria and coast of France, perhaps caused by an earthquake or the dragging anchor of a ship, knocked out the flow of bits and bytes to Web servers — from the business hubs of Dubai and populous Egypt to India and Malaysia. Internet cafes in Cairo were empty for days while the Dubai-based Emirates airlines coped with a sharp drop in Web bookings, and Egyptian travel agencies had to improvise to accommodate passengers who could not print out their e-tickets. Banks and businesses resorted to the 'old' technologies of fax, while hospitals reverted to sending medical images and documents to counterparts by messengers. Workers in businesses reliant on the internet sat idle, unable even to watch YouTube clips, as their computers displayed a 'no connection' message. The financial cost to businesses and the public of days without the internet has not been estimated, but the inconvenience is evident.

Similar episodes at the beginning of 2008 and two years earlier causing massive dislocation serve as periodic reminders of the close integration of the world since the first undersea cables were laid in the late 19th century.

"Since the discovery of Columbus," the *Times of London* wrote at the time, "nothing has been done in any degree comparable to the vast enlargement which has thus been given to the sphere of human activity [by the telegraph]." No single actor benefited as much as companies. The introduction of the trans-Atlantic cable in 1866 accelerated business deals and sharply drove down prices. Instead of taking 10 days to place order for a stock and another 10 days of travel by ship to execute buy and sell orders, the business by cable was done in a day and the result was nearly 70 per cent decline in mean absolute price differentials for identical assets between London and New York. Both the speed and the volume of communications have grown exponentially since then, and not just stockmarket and trade-in goods, but virtually all aspects of life have become dependent on the rapid transmission of voice, data and images provided by hundreds of thousands of miles of fibre optic cables girdling the earth.

Given the nature of the internet, which shoots data in small packages through every available node to reach the destination, an email sent to a colleague in the next office might circle the earth to reach its destination mere metres away. Routing technology is designed to find the fastest pathway to the destination, but if a core link is disrupted, as happened in late December, the fast moving bits and bytes are stopped in their tracks or diverted through various congested pathways around the globe. Initial fears that the cables were severed as a deliberate act of sabotage have been quelled but the danger of disruption due to natural disasters and accidents remains real. In order to ensure smoother and uninterrupted connections around the world, companies have to invest more in expanding cable networks and establishing redundancies. Given the massive costs of laying undersea fibre optic cables and maintaining them, this is not easy, especially as the world is confronting a deep recession. Yet, digital technology and the corollary of rapid communication remain the surest path to innovative business and economic growth.

As the breakdown in business and the disruption to normal life caused by the snapped cables in the Mediterranean show, more rather than less globalisation is the solution. Fortunately, this is one aspect of globalisation that has no critics. When one gasps for air, supplying more oxygen is a better bet than withdrawal into airless isolation.

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The Year Of The State

by jehangir s. pocha

A NATION never 'arrives'. Its achievements are merely milestones in the never-ending journey into the future. The fallacy of 'arrival' dooms a nation; it ceases to strive and think critically, beginning its inevitable descent into mediocrity, ossification and, finally, collapse.

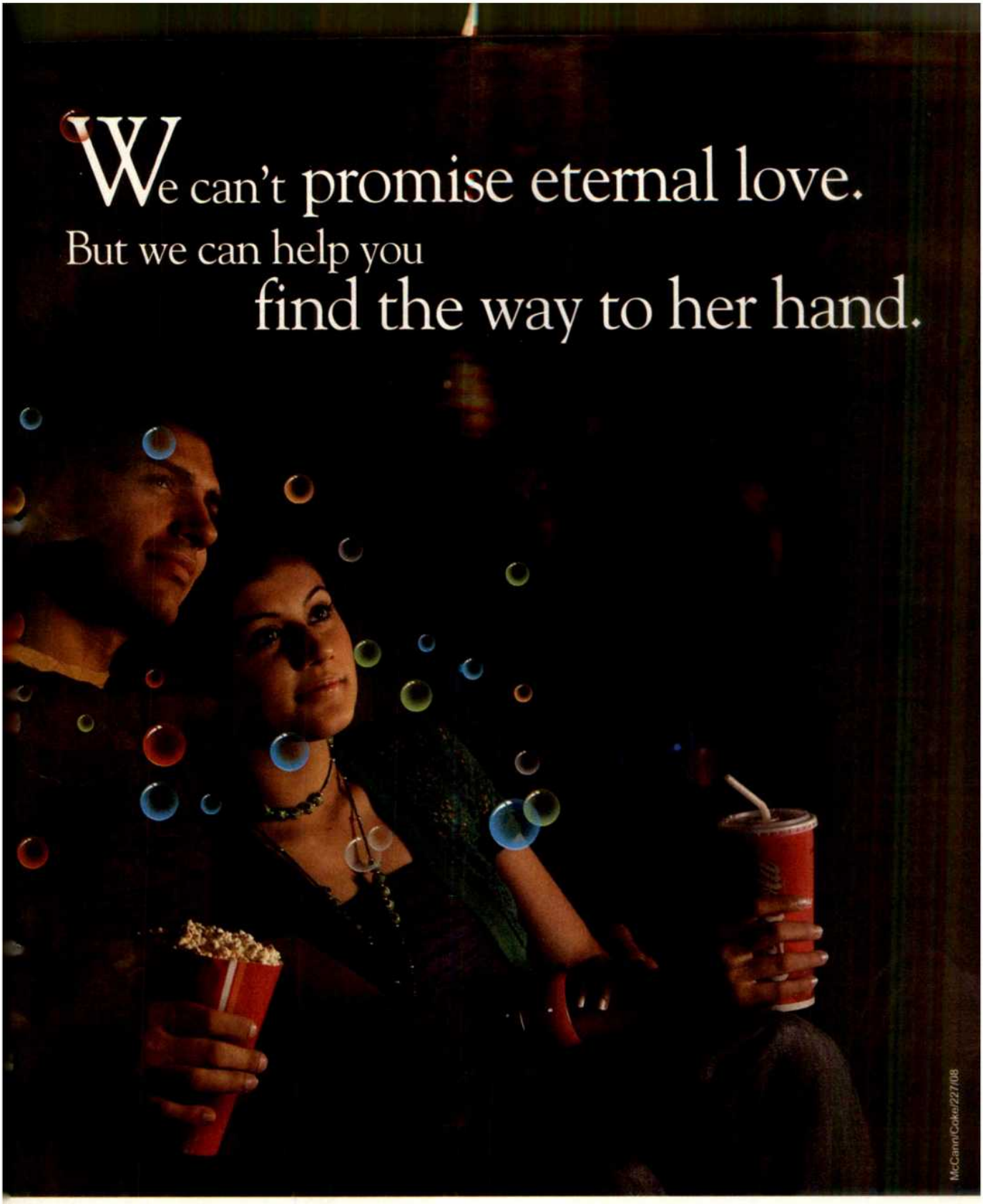
India has suffered this cycle, as has every nation and empire. But India's present is unique in that many Indians have begun to believe their nation has 'arrived', at least economically, even before it has peaked. This self-congratulation that swept the country after it found salvation in free markets irked some. But until recently, their protestations were derided as negative, even anti-national, by those high on the idea of 9 per cent growth.

History will show this euphoria was fanned by players with complex and divergent motives — ministers eager for foreign investment, media barons keen on boosting the stockmarket because 'private treaties' had given them stakes in numerous companies, builders and corrupt politicians profiteering from escalating land prices, corporate houses wanting to widen their domain and, finally, a US desperate to create a balance to China.

Now, with India facing corporate bankruptcies for the first time, the task before us is not to apportion blame but to ascertain how India can face up to the new global reality — that the great bubble of faith in unfettered markets has burst.

In the West, there is a twofold consensus — that capitalism, like civilisations, booms and busts, and while powerful players, such as Warren Buffet confess they thrive on this see-saw-ing, ordinary people are hurt by it. Hence, better regulation and oversight of commerce and financial markets is necessary and desirable.

But in India, though few admit it openly, there is panic at the thought. The western reversal to greater dependence on regulation is a reasonable solution for countries where governments and public institutions work. But what



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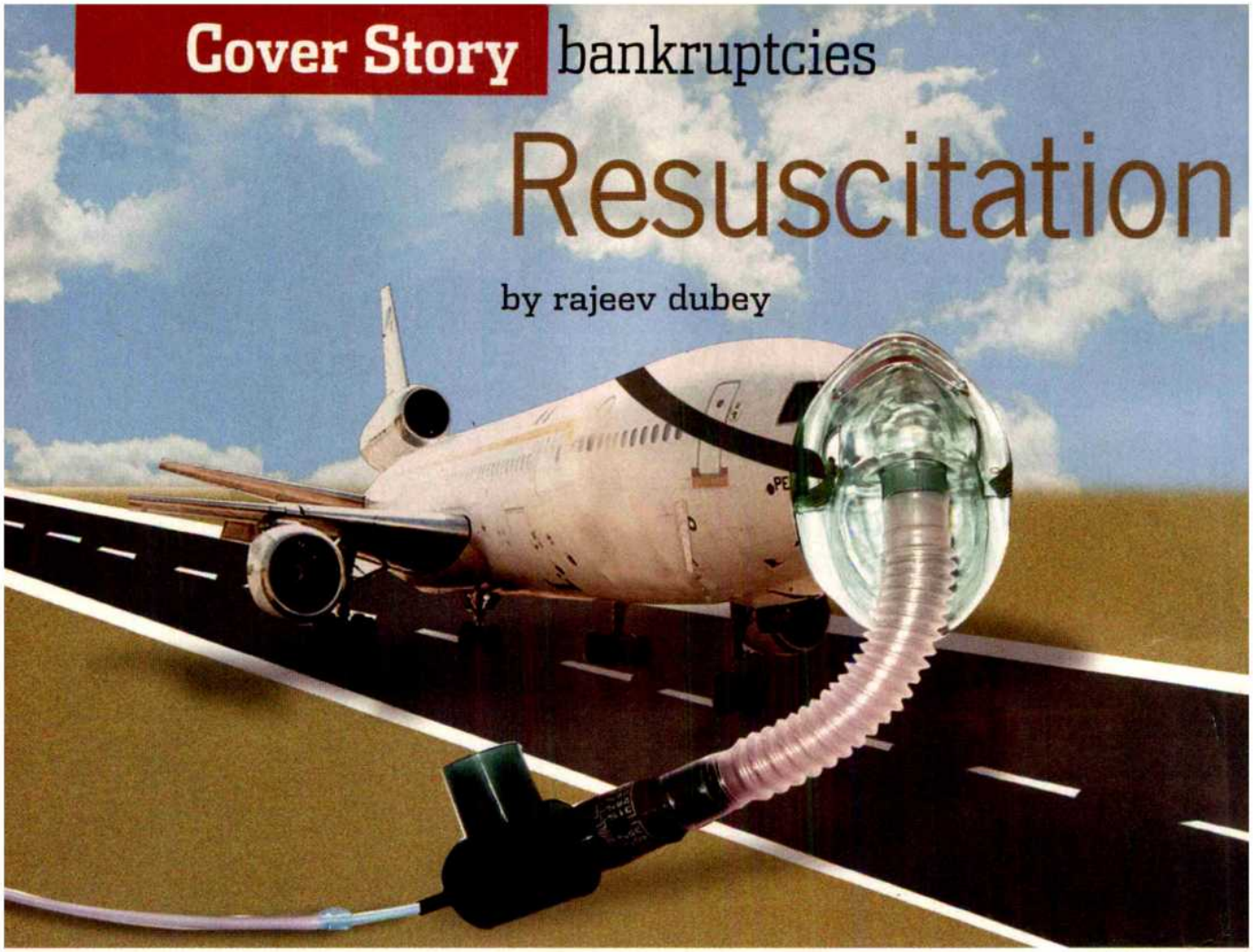
Cover Story

bankruptcies Resuscitation

by rajeev dubey



IMAGING: NEERAJ TIWARI

FLIGHT TO NOWHERE: The troubled aviation industry's request for a bailout did not find any takers in the government

PARETO'S 80:20 rule rarely favours the majority. Often, 20 per cent do 80 per cent of the work; 20 per cent of clients contribute 80 per cent to sales; and 80 per cent of results come from 20 per cent of causes. But in the wake of the global recession, the 85 per cent that the domestic market contributes to India's GDP weighs heavier than the 15 per cent that comes from the export market. Corporate bankruptcy — a term last heard in the slowdown of 2000-2003 — has returned to haunt India Inc., threatening to throw a few prominent firms in oil and gas and aviation belly up. Worse, 2009 is predicted to be gloomier. "There's been no breather in the downturn," says Hitesh Kuvelkar, associate director for research at First Global. "Domestic companies are seeing de-growth. There will be bankruptcies in 2009."

Rather than worrying about the export market, India should take control of domestic industries.

Bankruptcy Fears

Any plan to prevent bankruptcies can't rely on the 15 per cent export-led GDP because global demand has shrunk, but India can take control of the domestic market that is turning menacingly deceptive. Sectors such as textiles, aviation, real estate, cement, steel and automobiles are now bearing the brunt of the slowdown after export-led industries such as gems and jewellery and IT ushered global recession on to Indian shores. According to real estate consultant Knight Frank's Chairman Pranay Vakil, companies that were selling 40 flats a month last year are selling just four now, and even struggling to pay salaries. In aviation, Indian carriers' net loss this fiscal is projected to double to Rs 9,000 crore. Realty's struggle has hit cement and steel sectors, where the impact will be seen in the coming quarters. Textile exports are down up to 40 per cent and automobile inventories are building up to an alarming level. The biggest shocker so far has been India's first industrial de-growth in 13 years in November 2008.

Indigenous Gameplan

Clearly, the industry has to gear up for a long battle in 2009. As demand slows down, both over-

Needed

leveraged firms such as in realty and aviation or overleveraged promoters such as Satyam's Rajus run the risk of going under because of a severe credit crunch. Ironically, the government has neither planned, nor been approached to bail out such firms. "We don't visualise any bailout plans," Finance Secretary Arun Ramanathan had told *BW* in November. "We anticipate some problems for companies in the gems & jewellery sector along with export houses that are dependent on orders from countries such as the US."

None of the manufacturing industries have yet approached the government for a bailout, though the aviation industry's cry for help was only partially addressed. In October, the Federation of Indian Airlines — comprising Kingfisher, Jet Airways, Air India, Go Air, Paramount, IndigGo and Spicejet — asked for Rs 5,000 crore of interest free loans for three years. It also sought a reduction in ATF prices, freeze on airport and navigation charges, and self-handling of baggage to reduce costs.

One reason why most of these demands (except ATF price reduction) were never met is that even a murmur of American-style bailout packages has met with vehement opposition from across political parties and industry leaders. According to Maruti Suzuki Chairman R.C. Bhargava, the auto industry does not need a bailout. "It would be equivalent to throwing good money after bad purposes," he says. ICICI Bank's Executive Director V. Vaidyanathan believes that the industry needs confidence building more than bailouts. "The government has to create an environment where a large number of companies continue to get oxygen."

Bailout Blues

Analysts believe that with domestic market accounting for 85 per cent of GDP, India can be in control of its destiny and minimise corporate bankruptcies. "India's real security is in the domestic economy," says Shanto Ghosh, principal consultant at Deloitte. "In the Keynesian spirit, the government needs to spend more."

ICICI Securities' Executive Director Anup Bagchi says that the government needs to play the *sutradhar* (central character) in these times. Investment in infrastructure could help sectors like cement and steel. "It has to provide large doses of infrastructure investment to bring back employment because only the government can do deficit financing," says Bagchi.

Even firms in specific sectors will need to take measures to attract the consumer. Realty and automobile firms need to reduce prices. But that is hampered by the fact that the current inventory had been built on higher input costs that prevailed six months ago. According to Society of Indian Automobile Manufacturers (Siam) President Dilip Chenoy, automobile firms, for instance, have Rs 600 crore of inventories in the distribution pipeline. The industry is banking on lower auto loan rates to dilute these stocks. Similarly, realty developers have shied away from reducing prices. At best, they have thrown in freebies such as a free parking lot or club facilities, which have also been done in private.

"They should do that openly. Prices of two years ago are the best prices to go back to," says Knight Frank's Vakil. "It has to sink in and hurt for rates to go down." But Pradeep Jain, chairman of Parsvnath Developers, one of the companies rumoured to be in serious trouble, says, "We are comfortable. We are meeting all our commitments. If I start listening to what people are saying, I won't be able to work."

Even though some companies continue to put up a brave front, their industry dynamics may bring them to their knees. In cement, for instance, there is 15 per cent excess capacity, even as Punjab and Maharashtra — two key markets — continue to be pounded by nearly 1 million tonnes of duty-free imports. The industry believes it will be able to reduce input costs substantially if the government removes the 5 per cent import duty on coal and pet coke but this demand is still pending with the government. "Somebody has to close down; naturally, the most inefficient ones will," says Cement Manufacturers Association's President H.M. Bangur. "We are not looking for doles from the government. We only want natural investment into infrastructure from the government."

Similarly, even though Maruti's Bhargava is confident that auto companies will not need a bailout, he says component makers could get into a financial crisis. With the slowdown applying brakes on India's rapid conversion into a US-type consumption economy, the demand-supply imbalance will continue to play havoc with corporate aspirations built around robust demand. But if the nation's mood is anything to go by, bailouts for corporate bankruptcies are unlikely to find any takers. Companies may have to bank on a combination of minor sops from the government and major financial engineering internally to ride out 2009.

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Defying The Odds

by k.v. kamath

TRIBHUWAN SHARMA

THE New Year is that time of the year when we look forward to new beginnings and new opportunities. The world around us is changing rapidly, and holds both challenge and promise. The unprecedented turmoil in the global economy is impacting markets such as India — which is otherwise free of many of the problems that are at the root of the crisis — and raising concerns on the sustainability of the India growth story. Although the global developments do pose a serious challenge, we should not lose focus of the many positives that will keep the economy on a healthy growth path.

India faced numerous challenges in the past few months. The rise in commodity prices and the resultant inflationary pressures led to tighter monetary policies. As the global crisis deepened, liquidity in the international credit markets dried up as a result of global deleveraging. Given the lack of availability of refinancing, concerns were raised over the ability of Indian borrowers to meet their foreign currency debt obligations. The effects of the crisis were also transmitted through the trade and capital market channels, and we began to see a slowdown in exports and substantial outflows in portfolio investments. This, in turn, led to pressure on domestic liquidity, balance of payments and the exchange rate.

What is heartening is that the fundamentals of our economy continue to be strong and are driven by a balance of consumption and investment, industry and services. The Indian banking system is sound, with conservative leverage, stable funding, healthy asset quality, high regulatory reserves and no exposure to US subprime credit. The Indian corporate sector has demonstrated its ability to compete in a global environment, and today is far stronger than it was in the late 1990s, in terms of quality and operating efficiency. The fact that agriculture is doing well will provide some cushion to the economy. The knowledge sector is seeking better ways to remain efficient and that will translate into more opportunities for the sector. On the macro front, a declining inflation rate and reduction in interest rates will help stimulate domestic consumption and demand. These trends will continue to power the economy even during this phase of global slowdown.

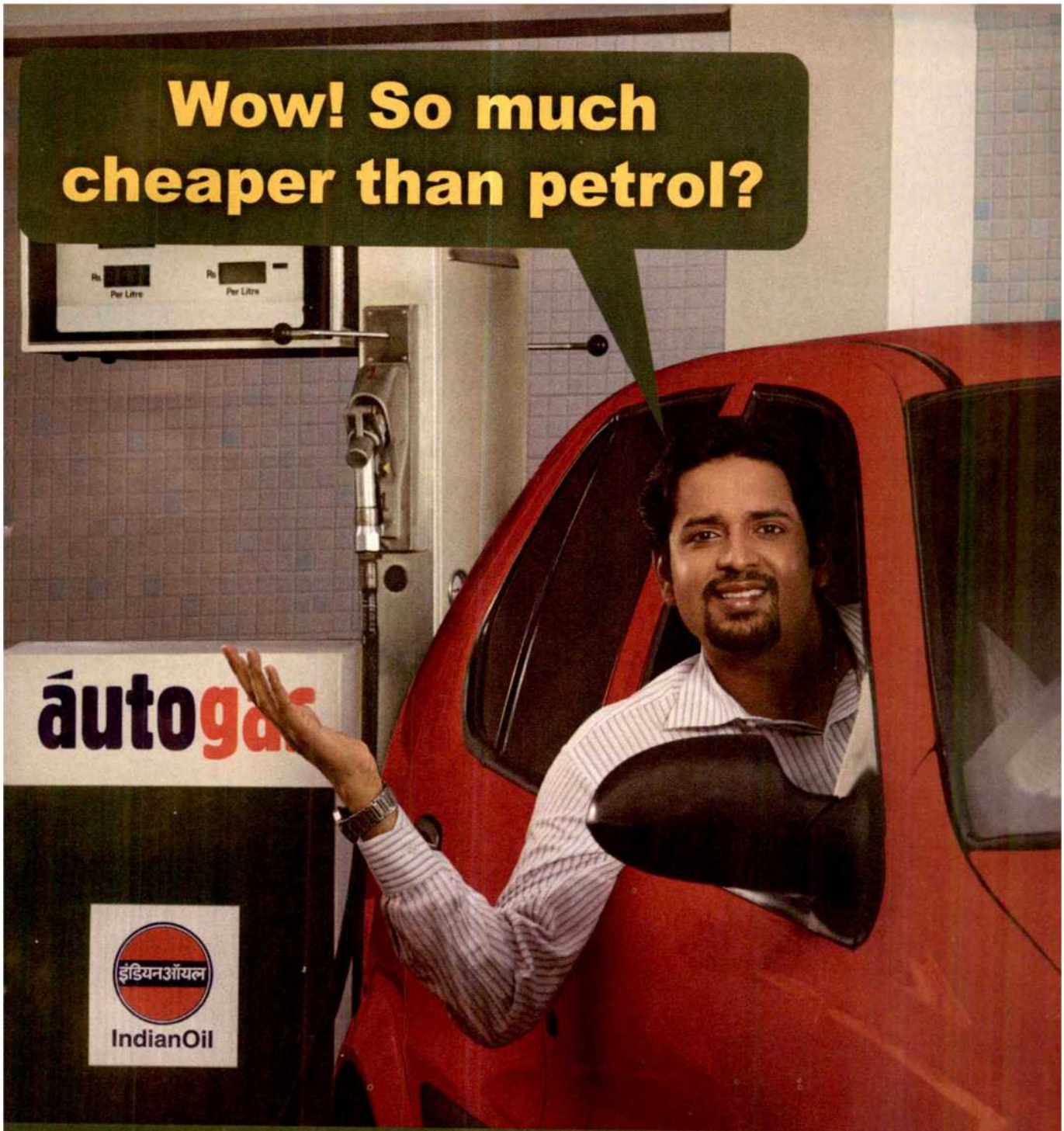
Despite obvious challenges and risks, India's economic story is sound

Troubled times like these provide policy makers insights and lessons to build an even more robust framework for reforms. It is, therefore, critical to take measures, in terms of liquidity and financial restructuring, to facilitate an orderly adjustment by businesses to the new economic paradigm. It is clear that the economy is going through a process of adjustment to changes in input and output prices as well as substituting of external funding sources with domestic liquidity. Many such measures have already been instituted. As this process of transition is completed, the Indian economy will be able to resume its growth path. This also requires monetary, fiscal and other policy measures.

This growth process will continue to open up opportunities for the financial services sector Price corrections and interest rate reductions will revitalise retail credit demand. The return of business confidence on completion of the adjustment process will result in continued investment activity. While systemic liquidity is adequate and additional liquidity tools are available to the authorities, additional capital for growth would, if required, be available from both domestic and international markets in due course. The capital raising announced by large Asian banks recently is a pointer to this. Of course, banks must demonstrate that they are taking the necessary measures to manage the impact of the global crisis and have the ability to capitalise on growth opportunities.

In summary, while we need to keep a close watch on existing and potential risk, we must not lose sight of our strengths and opportunities. Confidence, courage and a continuation of a facilitative policy environment should be able to see us through this difficult phase, and help the economy bounce back.

The author is Managing Director and CEO of ICICI Bank



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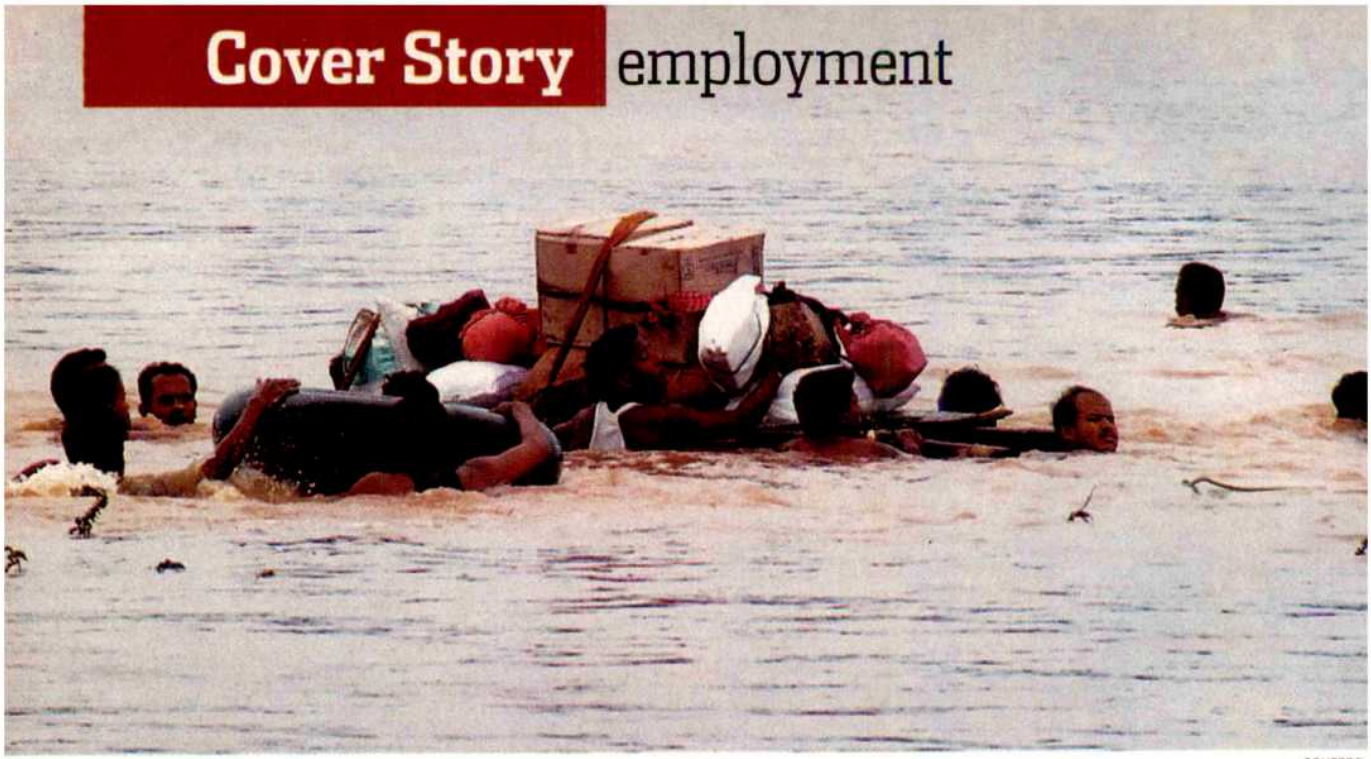


REUTERS

The Trailblazers

by sreevalsan menon

RAY OF HOPE: Telecom, healthcare, FMCGs, consultancy firms and core sectors can provide some relief from job cuts

IT is recession when a neighbour loses his job. Depression is when you lose yours," said former US President Harry S. Truman. Thankfully, the Indian growth story is only slowing down. According to Cherian Kuruvila, director of operations at Manpower, India Inc. will keep looking for the right talent for critical positions, even though hiring will be slow. We take a closer look at some segments that might buck the pink-slip trend in 2009.

Core Sectors Lead The Way

Companies in core sectors such as power, steel, surface transport, cement, mining and construction are mostly going ahead with their capital expenditure plans in line with the 11th and 12th Five Year Plans — over Rs 20,000 crore for 2009-10. Overall, the infrastructure sector is expected to grow at 10-15 per cent this year compared to 20 per cent in 2008. Growth will also be spurred by some SEZ projects — 207 of the 224 planned projects have already been notified. As for real estate, a Goldman Sachs' study says favourable demographics, low mortgage penetration, falling interest rates, and continuing demand from other growing areas may keep the sector's downturn from being long-drawn-out.

Another research firm, Dun and Bradstreet suggests that the liquidity crunch may delay projects, but activity will remain high thanks to lending rate cuts, an additional Rs 20,000 crore of planned expenditure, and drop in prices of commodities such as copper and steel.

The power sector — with investments to the tune of Rs 1 lakh crore lined up through Reliance, NTPC and the Adani Group — is expected to be a major driver of growth and employment. R.S. Sharma, chairman and managing director of NTPC, which plans to add 50 GW capacity by 2012, wants growth through greenfield projects and forays into coal mining, power equipment manufacturing and power trading. "We are hiring young engineers from IITs and also through all-India open competition," he says.

Steel Authority of India (SAIL) has planned a capital expenditure of Rs 54,000 crore over the next 3-4 years. "We are funding it through a debt-equity ratio of 1:1 and do not expect significant time and cost overruns," says Chairman and Managing Director S.K. Roongta.

Despite the slowdown, there are five sectors that may provide some job solace in 2009

Still Moving Fast

Daily necessities (read: fast-moving consumer goods or FMCGs) never go away. So, whether in boom time or in a slowdown, FMCG is a safe job generator. "We expect steady growth thanks to the liquidity crunch that restricts investments in luxury goods," says Harsh Mariwala, chairman of Marico Industries. "Many would now go for smaller pleasures." The sector has been growing at 15-17 per cent since 2006.

However, as more and more home and personal care products jostle for shelf space, margins of FMCG companies could suffer. Aditya Agarwal, director of Emami group of companies, says, "Our cost of production has also gone up, forcing an austerity drive but this is an opportunity in disguise in many ways."

If suppliers are so upbeat, can the retail industry be gloomy? Ajit Joshi, CEO and MD of Infiniti Retail (Croma) agrees that the mantra — better value and service — holds fine even today. A company experiencing its first downturn, Croma has managed to double volumes this fiscal and has big hiring plans for next year.

The Growth Pill

The staid mood is expected to keep the $30-billion healthcare sector on top of the mind in 2009. Medical tourism, diagnostics, health insurance, health BPOs and the medical devices industry will prove to be havens. A Dun and Bradstreet report says the domestic pharmaceutical industry sector will grow at 10-12 per cent in 2008-09 thanks to domestic sales, new launches, and generic market growth. An increased health sector outlay by the government of over Rs 20,000 crore will also fuel this surge.

The report also says by 2012, medical tourists will bring in $2.2 billion; the medical devices market will reach $5 billion; and the health insurance market, close to $6 billion. Contract research and contract manufacturing outsourcing (CMO) will also grow. "With global MNCs seeking further cuts in costs, more CMOs, which need much more than research skills, will come India's way," says Murali Divi, chairman of Divis Laboratories.

Connecting During Crisis

The Indian telecom industry has stayed firewalled. The number of mobile subscribers in the country ballooned through 2008, adding 10.42 million subscribers in October alone. Growth of wireless subscribers, till August 2008 was 52 per cent year on year. New players, new technologies and value-added services are boosting subscriber numbers. A strategic shift from urban markets to semi-urban and rural areas has dialled in double-digit growth, making the sector a major employer. Yet, there are capex constraints owing to the liquidity crunch. The sector needs at least Rs 1 lakh crore to meet demand from 3G services this year, according to D&B. As of now, companies are resorting to internal revenue generation.

Timely Advice

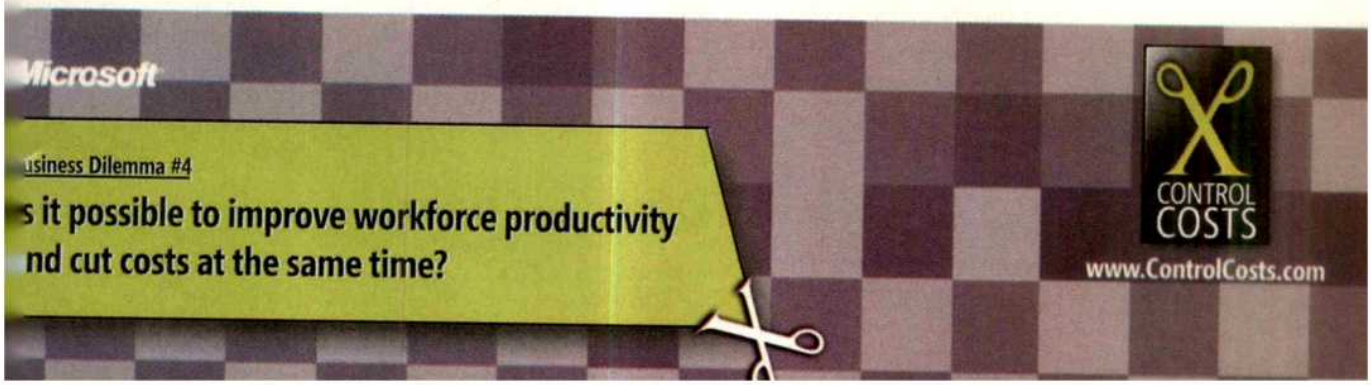
It is boom time for consultants including lawyers, auditors and management consultants. Says Raju Bhinge, CEO of Tata Strategic Management Group, "CEOs have shifted priority from growth to cash flow and profitability." Indian management firms are in demand as corporates need 'Indian solutions'. The immediate issues are cost reduction and optimising the supply chain. As M&A opportunities abound, insightful management and audit consultants along with experienced lawyers are in great demand.

Viresh Oberoi, managing director of mjunction, an online joint venture between Tata Steel and SAIL, says his e-commerce solutions have lots of takers who want their idle assets sold or want to procure goods and services at better rates.

Unlike the previous downturn in 2003-04, when there was large-scale staff reduction, the industry, growing at over 30 per cent, is now driving up recruitment. Many, including Tata Strategic have been on a recruiting spree for the past 7-8 months. Consultancy firms are offering add-on services such as analytics and organisation effectiveness in India while forging global alliances.

So, if you are wondering which area to build your career in, you know some likely options.

s.menon@abp.in



2009 THE YEAR AHEAD

Key Trends For 2009

by azim premji

BIVASH BANERJEE

I am not much of a soothsayer. Given the recent turmoil in business, where the world turned on its head within a matter of a few months, I would like to share a few of the themes that will emerge as I look at 2009.

Customer-centricity: With increased competition for a smaller pie, the customer will demand standards to be raised in terms of quality, cycle time and value expectation. Deliver or disappear, will be the new slogan. What does that mean for the services organisation? I would say that everyone will have to make a quantum leap in each of these areas because they will be moving targets. Creating strategies for them is one thing, but delivering them on the ground is another. Only those organisations that have got their execution engines right will deliver.

Prioritisation of resources: Customers will prioritise resources that will make them more competitive or at least help them salvage profitability in the short run. For service organisations, it means that they should focus on high growth markets or growth segments. Simplify business portfolios to areas of strengths. Companies should differentiate and be able to answer what value they bring to the table.

Consolidation: Customers that relied on multiple-vendors will possibly concentrate them into two or three. Most likely, they will be large vendors, provided they are able to stitch together a solution based on all their diverse strengths in a coherent solution for the customer.

Increased focus on measurements: In an environment where competition grows stiffer, every function in the organisation will be measured on its contribution to the strategic goals of the business. Measurements will become crisper and more focused.

The year 2009 will be tough. But it is important not to get too optimistic or pessimistic

Expect more: Successful providers will have high expectations from their people. In a people driven business, people play a critical role in business. People also account for a high percentage of the costs. It is important to set standards from the top for higher expectations. We must simplify and make the organisation lean. We must also build a significant degree of non-linearity.

Importance of corporate social responsibility (CSR): CSR will become an important parameter for an organisation to discharge its responsibility. Customers, employees and vendors will want to be associated with an organisation that is environmentally and socially more responsible.

Finally train, train and train: This is a great time to build people capability. We must ensure that we train the right people in the right areas that impact business. We must get maximum return on investment. Similarly, building for future capability is important. We cannot sacrifice the future for the present. The future will always arrive.

In the end, I would only like to say this. The year ahead will be tough, to say the least. It is important not to get too optimistic or pessimistic.

I remember the story of a ship that was lost in the high seas. On board the ship, along with the other passengers, were an optimist and a pessimist. The pessimist was the first to get up every morning and say, "Today, we will sink." The optimist would get up a few hours later and say, "Today, we will reach the shores." This went on for a few weeks. Neither the ship sank, nor did they reach the shores. Finally, the passengers got tired of the pessimist who disturbed their sleep with bad news. So, they threw him overboard. Then the optimist continued with his good news. Since the ship did not reach the shores, they were disappointed every evening. So, they threw the optimist overboard as well.

There are two lessons here. First, it is better to be realistic than optimistic or pessimistic. Second, remember, the optimist was the second to be thrown out.

Realistic optimism will be the key theme for successful organisations next year.

The author is Chairman of Wipro Limited

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Big Battles Of 2009

by m. rajendran

Forget winning. For four significant business verticals, the year 2009 will be all about survival

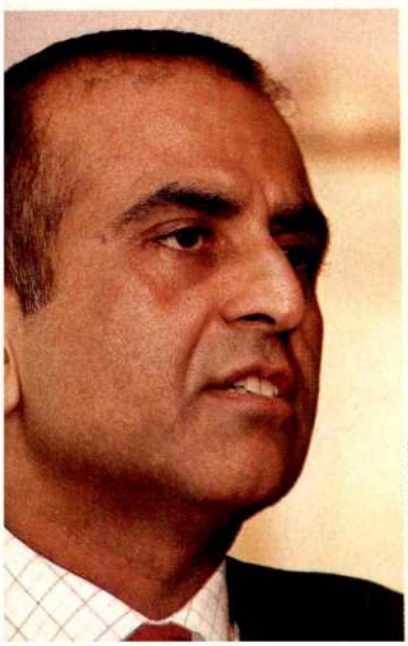
BATTLES seldom end in a tie. When stakes are high, players fight to win. But in the year 2009, four critical business verticals in India — consumer electronics, direct-to-home (DTH) TV, telecom (new operators) and passenger cars will witness fierce fights between players not necessarily looking to become numero uno, but to survive the year. It appears that the Chinese Year of the Ox, which is supposed to be about stability, will instead bring with it some serious battering.

Electronic Nation

The Rs 24,010-crore ($4.9-billion) Indian consumer electronics industry is a battlefield that has seen a tactical shift in 2008. LG, which fought to be the market leader through its ferocious volume-driven battles over a decade, has decided to focus on the high end of the market. Arch rival Samsung had already made this shift two-three years ago.

Sensing an opportunity, companies such as Sony, Haier, Panasonic and Hitachi have rushed in with economical products to fill the vacuum. This year will decide whether LG and Samsung's strategic moves will redraw the battlelines or fail them. LG, for instance, is focusing on flat panel displays (FPDs) and side-by-side refrigerators. "We are at No. 2 [in refrigerators] currently (after Samsung)," says Moon B. Shin, managing director of LG Electronics India. "We aim to be No. 1." To make them affordable, LG plans to manufacture them in India.

Meanwhile, Samsung is furthering its high-end strategy, too, with products such as washing machines featuring silver nano technology. "We are looking at sustaining growth through innovative product launches and attractive product pricing," says R. Zutshi, deputy managing director of Samsung India. Both firms plan on investing more than Rs 200 crore each towards launching new models.



TRIBHUWAN SHARMA

RUNNING TO WIN: (left) Bharti Airtel's Sunil Mittal and Reliance Communications' (RCom) Anil Ambani. Both Bharti and RCom are striving to become the market leader in the DTH realm

The Sky Is The Limit

Till recently, the DTH industry in India was a duopoly led by Dish TV and Tata Sky, leaving subscribers with limited choice in tariff and services. But new operators such as Big TV from Reliance Communications, Airtel Digital TV from Bharti and Sun TV from the Sun Group promise to herald sweeping changes.

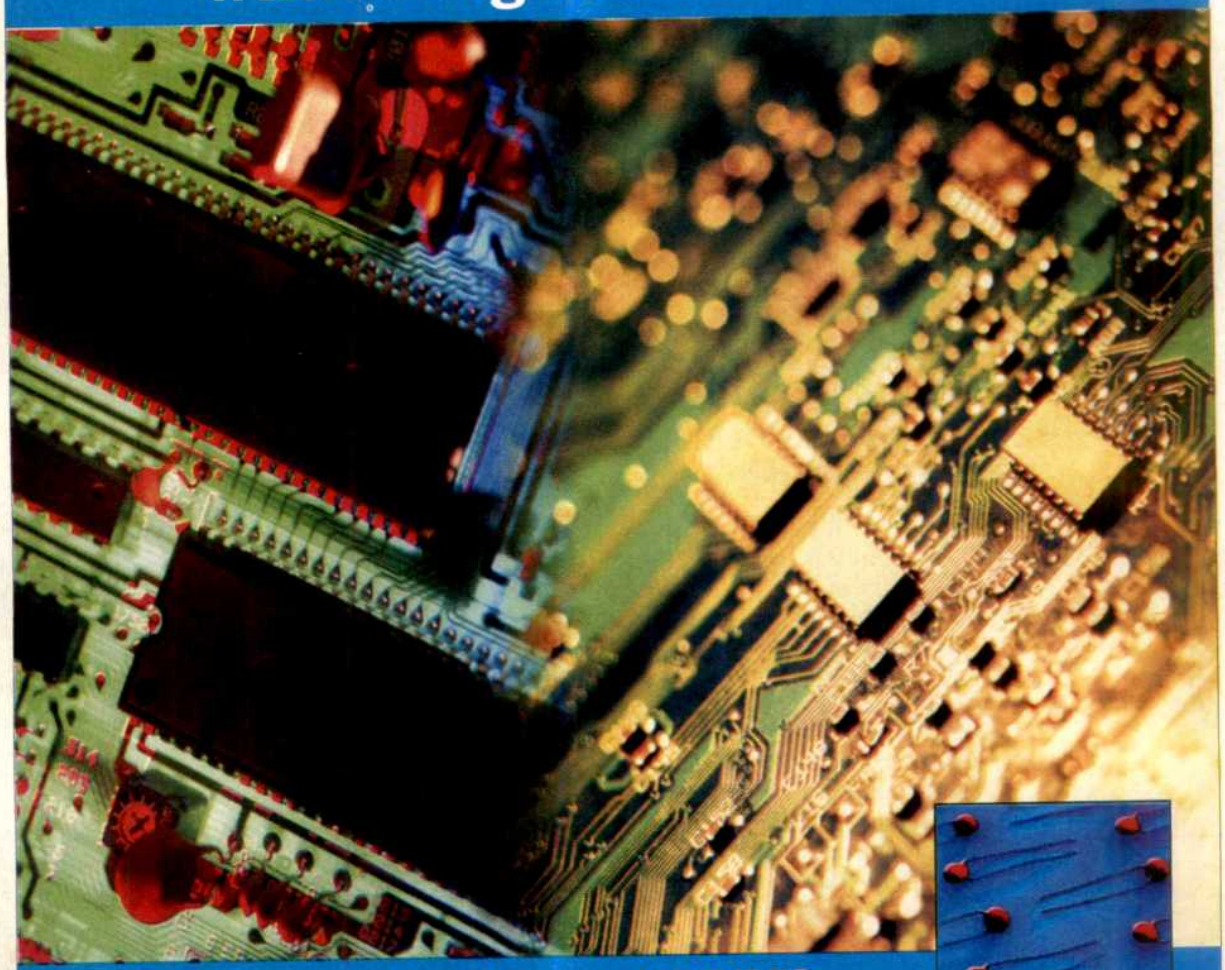
Rates are already going down. Sun is offering an annual tariff package of Rs 499 while Tata Sky has launched a Rs 99 per month channel-bouquet scheme.

Big TV is planning to bundle its set-top box with a small LCD TV. Airtel is planning a slew of sachet tariff packages and more interactivity, and Tata Sky is offering live feed recording. Though, "DishTV will always have first-mover advantage and the benefit of an existing subscriber base," says Jawahar Goel, managing director of Dish TV.

Eventually, your set-top box could come for free. Moreover, "We will offer airline and railway bookings on our platform in addition to offering movies on demand within two weeks of release," says a senior Tata Sky executive.

Aseambankers, a major Malaysian research firm, predicted in its 2007 report on the DTH industry that India will overtake Japan as the most lucrative DTH market by 2010. For 2009, industry reports are projecting a 30-40 per

What's big without small?



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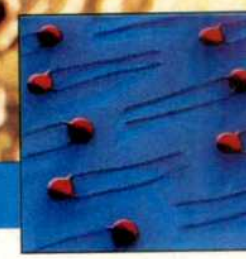

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cent growth in the DTH market against a 20 per cent growth in cable TV.

Ringing In The New

Globally, India is the fastest growing telecom market, adding 10 million wireless subscribers every month. With an average revenue per user (ARPU) of less than Rs 200, India is, ironically, also the market with the lowest tariffs because of an intense competition among six players in each circle. The proposed entry of six new telcos in every circle will make telecom the battlefield of the year. Unitech Telecom, Videocon-HFCL promoted Datacom, Shyam Telelink and Swan Telecom are serious contenders against veterans such as Bharti Airtel and Reliance Communications.

Amidst allegations of political favours, Swan has moved quickly to become the first company to tie up with state-run Bharat Sanchar Nigam for its network, the largest and widest in the country. "A smart move, as it (Swan) can get off the block to launch services in rural areas at lower operating expenditure," says N.K. Goyal, president of the Communications and Manufacturing Association.

Three of the new players are still to get the go-ahead for their equity sale to foreign partners. Amidst political opposition and the ensuing general election, 2009 will see hectic lobbying to get these deals approved. The auction of third generation (3G) spectrum and broadband wireless access will add a new dimension to this struggle.

Steering The Way

India's passenger car market is among the worst hit by the slowdown with sales down by 19 per cent. Earlier, bullish car majors had announced roll-out plans during the growth phase that will be hard to roll back. Maruti's A-Star and Hyundai's i20, in particular, have been launched when the offtake is already poor.

Honda Siel Cars India is slated to introduce its small car, Jazz, with a 1.3-litre engine and a spacious interior. Volkswagen is all set to launch the Polo and the new Beetle with a six-cylinder engine, and Tata's Nano will run on Indian roads in 2009, too. In all, more than six new cars are likely to be launched in 2009.

The A-Star hasn't received the warmest market response. Nevertheless, the company plans to launch Splash in the mid-size segment, to compete with Hyundai's i30 and i40. "The challenge is to revisit each cost structure," says S.Y. Siddiqui, managing executive officer for administration, HR, IT and finance, at Maruti Suzuki. "We had been preparing for this situation for the past six months. We will survive this." Despite the slowdown, new models, particularly in the mid-size segment, will be rolled out. "New models are critical in removing the fatigue of consumers," says G. Balendran, vice-president of General Motors India.

High-end models, though, may be held back. Even so, in the luxury and premium segments, BMW is planning to launch its Minis, Volkswagen its UP and Tiguan, and Chevrolet its Cruise. Besides these, Hyundai's Avante and Volkswagen's Polo too are likely to hit the road in 2009. But before that an inventory pile-up of Rs 600 crore has to be cleared. For that, firms will have to come up with the right mix of insurance packages and dealer incentives to woo buyers. Most automobile companies *BW* spoke to admitted that they may have to sell below cost price next year because fresh capacity has already been created.

The coming year will demand agility and sheer staying power — nobody wins but everybody must keep playing. It will be the year of living dangerously.

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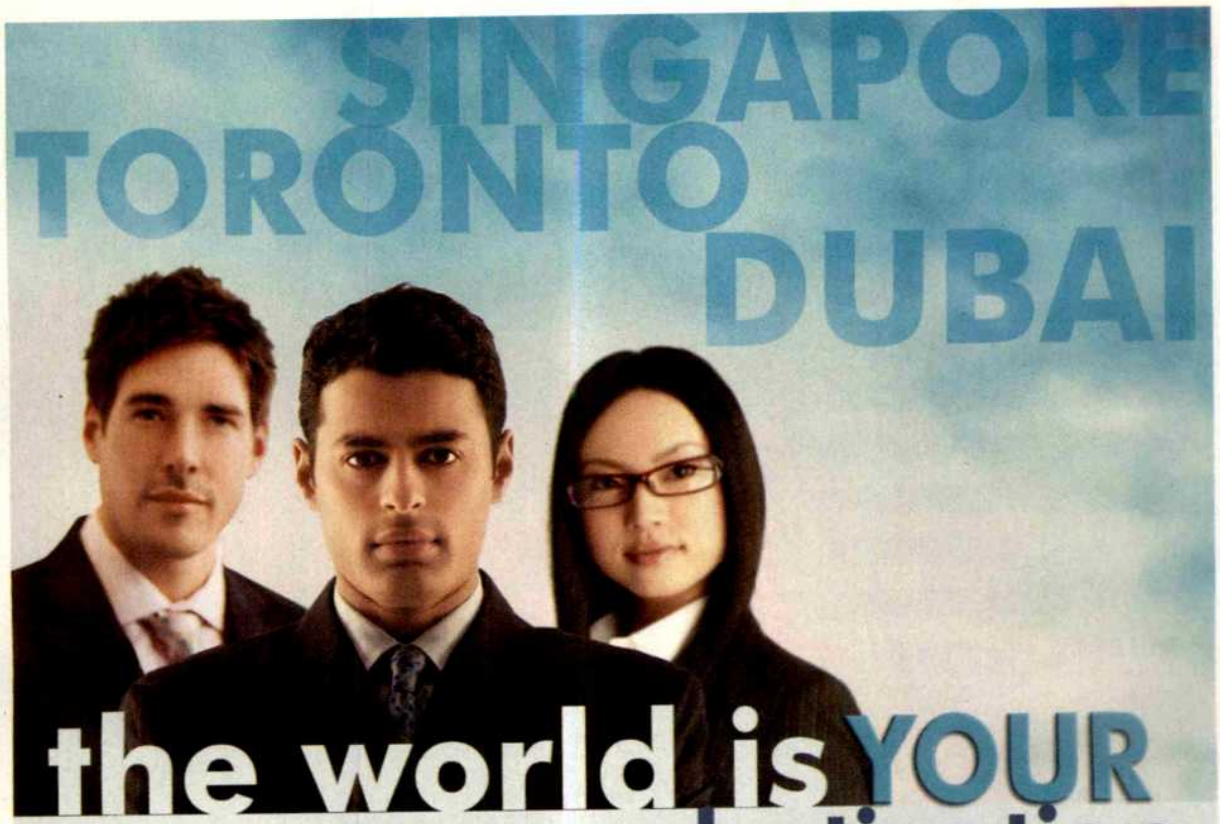
NOT GIVING UP: Despite the slowdown, many car makers, such as Maruti Suzuki and Hyundai, are planning to launch new models in 2009 to keep buyers interested



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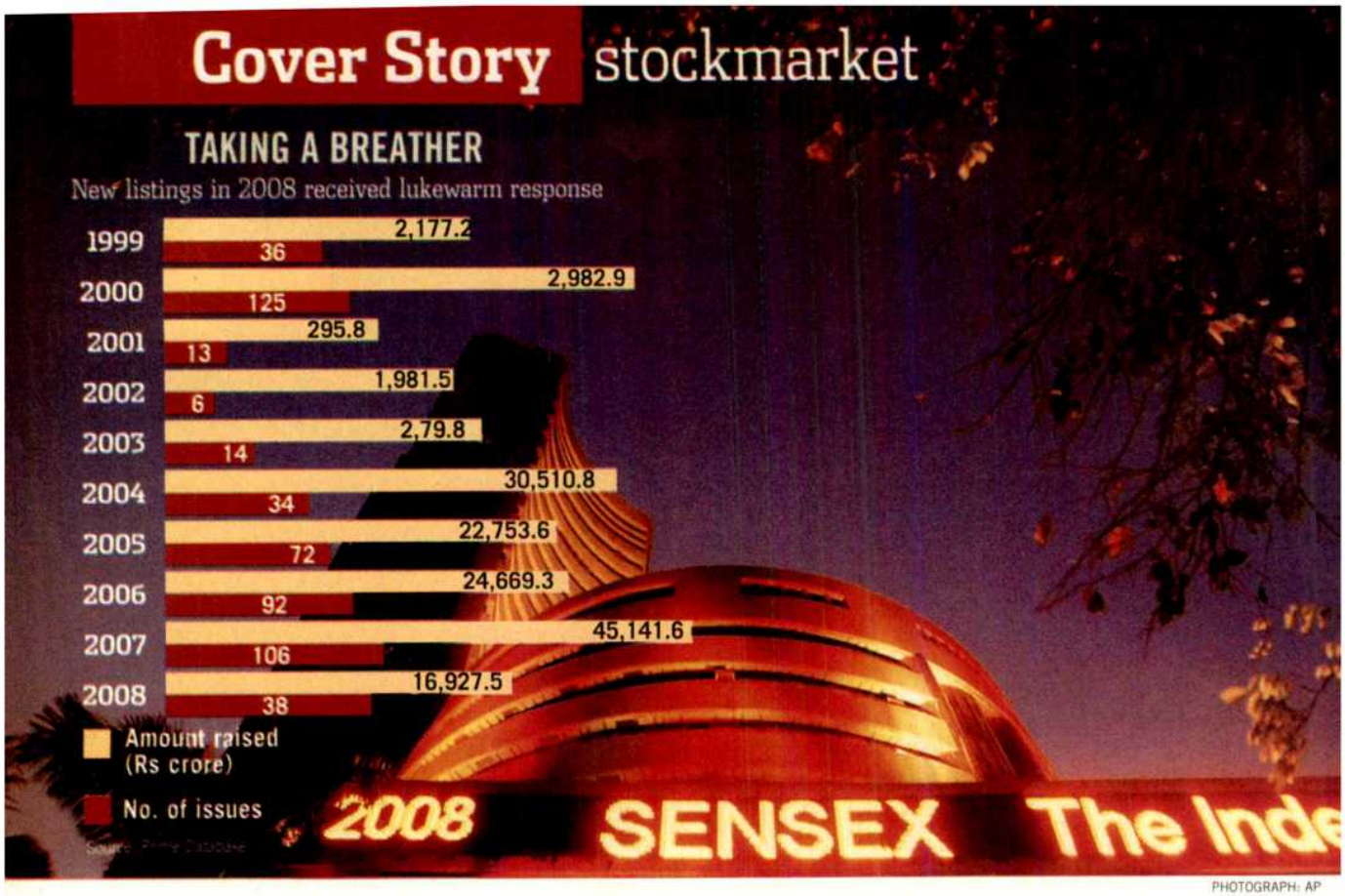
INKED CREATIVE SOLUTIONS



PHOTOGRAPH: AP

On The IPO Wagon

by rajesh gajra

LAST year has been a hard one for companies trying to raise money in the primary markets, especially the first-timers who came out with initial public offerings (IPOs). With the sentiment in the secondary market subdued, the next year may again be a severe test for listed and unlisted companies wanting to tap the markets. *BW* looks at the year that went by, to get insights into what could be in store in 2009.

2008 began with a bang for the IPO market with the Rs 10,260-crore Reliance Power issue hogging the limelight in January. In less than a month, it was evident that the book-built issue had tanked along with the secondary market.

Reliance Power, priced at Rs 450 a share, was perhaps the last one that got away with 'absurd valuations'. Because soon after the issue closed in mid-January, the secondary market had started its collapse. Sensing the weariness of the investors, companies such as Emaar MGF Land, Wockhardt Hospitals and SVEC Construction withdrew their IPOs. This however did not deter others — about 20 IPOs hit the market afterwards, but they barely scraped through, together raising less than Rs 5,000 crore.

With the stockmarkets remaining volatile, how will investors receive the IPOs queued up for 2009?

Will 2009 see more companies chickening out or will there be some bravehearts going ahead with their IPOs? Many say primary markets generally follow secondary markets in terms of valuations and it is a typical corporate response — mostly on the advice of lead managers — to dump public issue plans, when the going is rough on the bourses, rather than cutting down the issue price. "No company would like to dilute their shareholders' equity at lower prices if they have choice," says Sanjay Hegde, executive director at PricewaterhouseCoopers.

There also seems no incentive to attractively price public issues. "The IPO process involves

an insider selling and outsiders buying and no one, not the promoters, not the investment bankers, have the incentive to see that the new investors make money," says Anand Tandon, director of equities at Brics Securities.

Things To Come

Despite the secondary market scenario and the reluctance to lower the issue price, most corporates could do with some ready cash at a time when liquidity has dried up. "The third quarter has been the most dire for Indian companies in a six-year period and the first clutch of IPOs in 2009 could be distressed capital raising, though the companies will not admit it," says Saurabh Mukherjea, head of India equities at Noble Group, a research advisory firm for global investors.

The fate of these IPOs, however, will be uncertain. "If the secondary market is not stable you can forget about the primary market," says Prithvi Haldea, chairman and managing director of Prime Database. He points out that during the 1995-98 and the 2001-03 slowdowns, only a handful of IPOs would hit the market in any given year. But now, "the pipeline of companies wanting to raise capital through IPOs is strong and the numbers are only increasing".

Between April and mid-December this year, the Securities and Exchange Board of India (Sebi) received offer documents from about 50 companies for public issues. Barring a few, most are unlisted companies looking at initial offerings. The list includes Coromandel Engineering, Godrej Properties, Adani Power, C. Mahendra Exports, Tata Investment Corporation, BS Transcomm and Usher Eco Power. The companies in the queue are predominantly from the commodity sector such as metals, or export-oriented companies, or telecom and IT companies, and some even from the real-estate sector.

"If I was a company with long-term projects, I could, by tapping the primary market, speed them up because the assets and raw materials are available cheaply today," says Hegde, alluding to the past few months fall in commodity prices.

But will investors bite the bait? Some say investors — whether institutional or individual — look at an IPO as a short-term instrument rather than a long-term investment. "The IPO market thrives on listing gains and on the momentum of the secondary market," says Ashutosh Maheshvari, head of investment banking at Motilal Oswal Financial Services.

Maheshvari points out that in the current scenario, not many investors are willing to wait for 20 days (the time lag between opening and listing of an IPO) before the issue she subscribes to, lists. But with Sebi moving to streamline the process, there is a good chance that in 2009, companies that open their IPOs on, say, day X, will be able to list on day 'X+8'.

Sebi may smoothen the technical snags but Haldea cautions investors to be as diligent in 2009 as they were in 2008, before investing in an IPO, "Some companies' promoters are greedy and how many will bring down an earlier-decided issue price from, says Rs 300 to Rs 150?" he asks. But Noble's Mukherjea believes that the Indian markets have in the past six years never looked cheaper in terms of market valuations and the secondary markets could revive. If that happens, the IPO market would follow suit and the whole cycle of absurd valuations and listing gains play could also start all over again.

Investors, in 2009, will have the whole spectrum of listed secondary market stocks and the potential IPOs to choose from. Whether they invest in listed stocks or new ones will be a tough call, with valuations far below what they were about a year ago. "Unfortunately, most IPOs happen at the peak when there is euphoria and the valuations are the highest," says Tandon.

Global Phenomenon

Globally, the trend in the IPO market has been the same — bearish. As per the World Federation of Exchanges, Indian companies raised $4.7 billion through IPOs till October last year, against $8.7 billion in the same period in 2007. Brazil's Bovespa saw a sharp crash from $28.5 billion in 2007 to $4.7 billion in 2008. Take the case of some other markets — Hong Kong raised $8.4 billion last year as against $26.1 billion in the previous year. On NYSE the capital raised through IPOs halved to $25.3 billion in 2008 ($53 billion in 2007), London and Shanghai were equally bearish. The only exception was South Korea, where IPOs raked in as much as in 2007.

That is some consolation.

rajesh.gajra@abp.in

IPOS THAT SUFFERED IN 2008

The primary market for new listings can really crash when secondary market is in a bear hug

	Amount raised*	Loss in value (%)#
Reliance Power	10,260	-72
Rural Electrification Corporation	1,639	-36
IRB Infrastructure Developers	945	-33
KSK Energy Ventures	831	-37
Future Capital Holdings	491	-78

*(Rs crore), #from Issue Price to LTP (Last traded price as of 23 Dec '08)
Source: Prime Database, NSE, *BW* research

How to Slash Your **Advertising & Marketing** Costs

Photo shoots cost a fortune. At a price that's just a fraction of that, you can pick ready-to-use images that fit your brand and communications strategy... from Imagesbazaar.com

The choice is pretty simple. It is between the colossal sums of money, effort and time spent on the design, photography, models, location, props, styling, make-up of a photo shoot versus clean and crisp images specially designed for the target audience of the Indian subcontinent. This is the offer made by ImagesBazaar, which is the world's #1 collection of Indian images. The temptation of minimizing expenditure and effort with better and more beautiful results is irresistible.

Whether it's a print advertisement, brochures,

catalogues, packaging, POP material, hoardings, website or any other form of marketing communication, an effective marketing strategy demands an appropriate Indian visual to create a powerful impact. What's more, anyone can easily select an image from the site. A designer can find images for his ads, a CEO can find pictures for his presentation, and a marketing professional can find photos just right for his direct mailers.

ImagesBazaar seeks to offer simple solutions by offering brands and advertising agencies the option of selecting and buying images exclusively for the campaign without paying for the cost of entire shoot. This provides the user an exclusive image within no time. You have the liberty to pick from a wide range of images which would be the most appropriate for the brand image. The images offered by ImagesBazaar are reasonable and can be purchased for exclusive or non-exclusive usage.

IMAGESBAZAAR.COM REDUCES ONE'S EXPENSES FROM LAKHS TO THOUSANDS, AND EXECUTION TIME FROM WEEKS TO JUST A FEW MINUTES

The company offers a history of the image at an all-India toll free number (1800-11-6869). Thousands of leading brands have made this choice already and are utilizing these images for their advertising and marketing campaigns.

ImagesBazaar offers a unique image per client with exclusive rights. The exclusivity of the image is well protected as similar images of the same shot are suspended from the website. The option of browsing through thousands of exclusive images is available at the home page of the site. On the completion of an exclusive rights agreement, the images can be used lifelong without spending a penny under Non-exclusive rights.

Goodbye to Expensive Shoots

David Ogilvy once stated that every advertisement should be thought of as a contribution to the complex symbol which is the brand image. Much more than mere words, it is the images of an advertising campaign that stay and influence a consumer's mind and choice eventually. An image is priceless and hits the nail on its head. They are talking pictures which connect with the user effectively and efficiently communicate the message to the consumer. To get an idea translated into canvas, images need to be well connected to the thought. An image enhances, adds and complements the content.

The world of advertising has for a long time, taken the tried and tested route to acquire images. This usually means a customized photo shoot. A photo shoot from any aspect is not an easy task. Firstly, a photo shoot requires a dedicated team of professionals to look into every aspect and detail, from its conceptualization till the final photo shoot. With budget constraints, and the target of effectively expressing the image of the product or service is a tough task. Added to this is the fact that a photo shoot is a painfully prolonged task. It requires assembling every minute detail from scratch which includes looking for the right location, searching for a photographer, and getting the right faces.

Expenses tend to escalate with the employment of costumes and make-up artists. An art director is essential. Finally, there is the lodging/boarding for outdoor shoots, travel expenses, props and lighting. This can stretch into weeks. With maddening deadlines and the pressure of managing one's time well, photo shoots are irksome. If any sort of malfunctioning happens or for an outdoor shoot the weather conditions are adverse, the entire shoot leads to financial losses.

Yet, visuals can be horribly expensive. The budget can go on expanding endlessly, often running into lakhs of rupees. With a collection of over 6,00,000 images with Indian faces specifically for the Indian advertising and marketing industry, ImagesBazaar makes it possible to slash that cost by 90%. In this way, ImagesBazaar.com reduces one's expenses from lakhs to thousands, and execution time from weeks to just a few minutes.

Minimize Costs, Maximize Benefits

If the end product does not turn out to be according to the concept, or does not relate to what one has in mind or the outcome gets rejected by the client, the entire photo shoot exercise goes in vain, not to mention the financial loss. With ImagesBazaar, effective and productive advertising has taken a new turn in India.

Advertising and marketing campaigns rely greatly on images. The manipulation and the choice on deciding what 'image' a campaign would opt for goes a long way in determining the success of the product or service. Ogilvy pointed out that 'Image means personality. Products, like people, have personalities, and they can make or break them in the market place'. It is, thus, of prime importance to select the right image that represents the product and the brand perfectly.

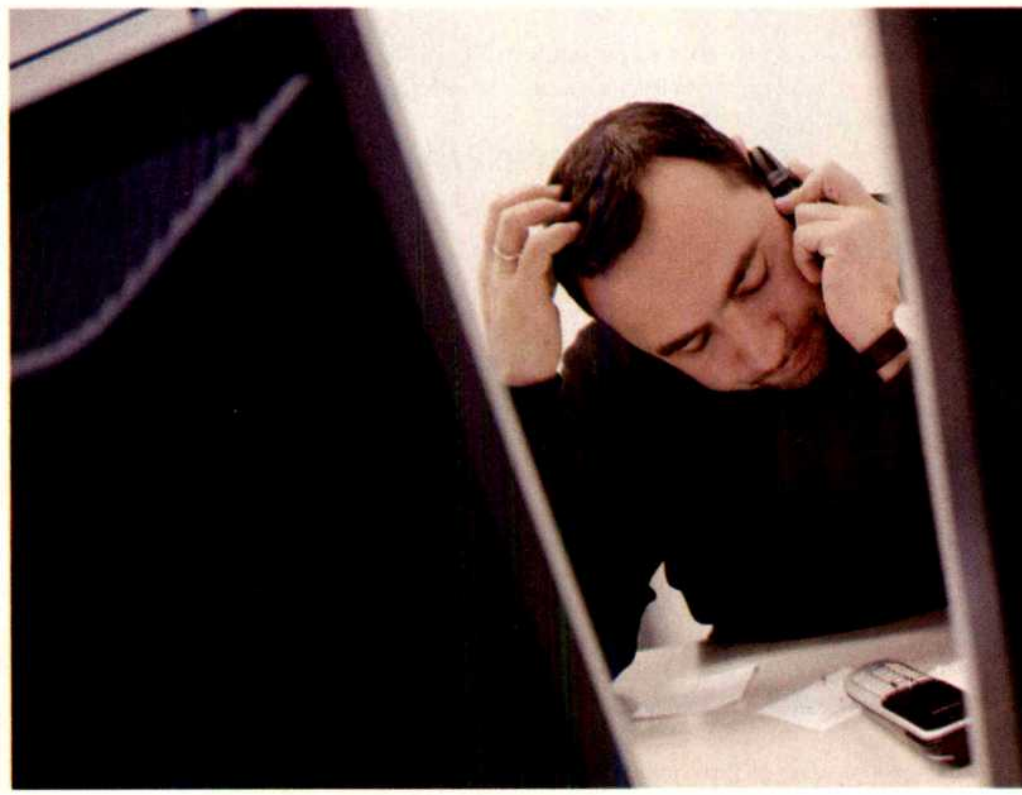
ImagesBazaar provides an access to the users to buy images exclusively for one's campaign and concentrate on the job at hand without fearing or worrying about the action behind the camera. And the spending is just a fraction of the total cost.

All this simplifies matters and translates to greater freedom to usage with reduced cost. Working on the simple proposition that what you see is what you actually get, also helps in formulating an effective campaign.

When the need of the hour is to cut costs, look no further than ImagesBazaar.com. ❑

Prepare For Pain

by omkar goswami



SCARY SITUATION: India's GDP growth is better than OECD countries, but lousy compared to its 9 per cent growth a year ago

ON the last Friday of 2007, the BSE Sensex closed at 20,207. That evening, at a swish Mumbai restaurant called Indigo, a young investor banker triumphantly told me, "20,000 is just a half-way house to 40,000, which will happen sooner than you think." On 26 December 2008, also the last Friday of the year, the Sensex closed at 9,329 — almost 54 per cent below the level a year earlier. Instead of doubling to 40,000, it had more than halved; and quicker than the young banker could have thought.

A year ago, 9 per cent GDP growth was our birthright. India was everywhere, and nothing could prevent this de-coupled juggernaut from doubling its real GDP every eight years. Only traitors questioned the sustainability of our dazzling growth trajectory. "What's 9 per cent?" you were told with barely hidden contempt. "Why shouldn't we get 10 per cent? Or 11? Or even 12?" Today, these self-same alpha males speak of cutting investments, slashing costs, conserving cash and 'right-sizing' — the euphemism for firing people.

How bad is the global scenario? How long does one expect the downturn to continue? How will it affect India? And what can we do in terms of monetary and fiscal policy to mitigate the damage? Let me answer these questions as best as I can.

When the US, the Euro zone, the UK and Japan together catch pneumonia, the world needs hospitalisation. The global situation is very bad — the worst since after World War II. Here are consensus estimates of GDP growth for 2009. US: -1 per cent; the Euro zone: -1 per cent; Britain: -1.4 per cent; Japan: -1 per cent.

The Organisation for Economic Co-operation and Development (OECD) nations, whose 2008 GDP was $43 trillion, will see some $430 billion disappear in 2009 because of negative growth. Add to that the impact on the emerging markets, and a fair guess is that $900 billion to $1 trillion of goods and services will not materialise. That will be the greatest compression in global demand since the Great Depression.

flows to emerging economies have al-
arply reduced from their record high of
on in 2007. The World Bank estimates
halve in 2009. The volume of global
expected to shrink by 2 per cent in 2009
e first time since 1982.
der the US, with $14 trillion of GDP.
Personal consumption expenditure accounts for over 70 per cent of GDP and drives demand. In Q3 2008, personal consumption expenditure shrank by 3.9 per cent — for the first time after 67 quarters. It will decline further in Q4 2008 and, in all likelihood, the first two quarters of 2009. In November 2008, US retail and restaurant sales fell by 7.4 per cent. Automobiles sales were down 25 per cent; furniture and home furnishing sales were down 11 per cent; building material sales were down 5 per cent; and electronics and home appliances were down by almost 5 per cent. Non-farm unemployment rate in November 2007 was 6.7 per cent — the highest since October 1993. November 2008 also saw 533,000 people being sacked, bringing the total number of pink slips in January-November 2008 to above 1.9 million, with more to come. Housing prices are still 25-30 per cent below their peak. With an inventory of 12 unsold homes for every unit sold, prices will fall further. That has shattered home equity values, which have fuelled US household

BLOOMBERG

ture. The US Main Streets are hurting — continue to hurt for most of 2009.
n can we see an upturn in the developed
? One thing is certain: the US will come faster than the Euro zone, Britain and
The US is a resilient and adaptive econd has been swift in making big moves.
nt-elect Obama will fast forward a maie package soon after his inauguration.
ast, the Euro zone is sclerotic: France, ny, Italy and Spain can't agree on anyportant; an inflation-phobic European Bank hates easing liquidity; and Euiddled with structural rigidities. There ng to indicate that Japan has learnt the of 10 years of inaction. Its politicians nomic bureaucrats are too old and commake fast moves. Britain is in a hole: a dget deficit, now at almost 5 per cent of oor human capital; and very little in competitiveness.
d be wrong, but my sense is that while night turn by Q3 2009, we won't see the

The US might recover by Q3 2009, but the Euro zone, Britain and Japan may take longer

OECD nations as a whole coming out of the slump in 2009. And it will possibly take another full year before things get back to normalcy.

How does this affect India? My take for 2008-09 is that agriculture will grow at 5 per cent, contributing 0.9 percentage points to GDP growth; industry at 3.5 per cent, adding another 0.9 percentage points; and services at 8 per cent, contributing to 4.4 percentage points. So, you get 6.2 per cent GDP growth for 2008-09. It is good judged against the OECD countries, but lousy compared to 9 per cent growth even a year ago.

It is too early to clearly predict how 2009-10 will pan out. But I tend to go with my tribe in believing that we will see even lower growth — somewhere between 5.5 per cent and 6 per cent. This will bring pain. Companies had scaled up capacities to service high double-digit revenue and EBITDA growth. Suddenly, the order books are drying up; exports are shrinking; capacities are not being utilised; investments are being shelved; and costs ruthlessly pruned. These are symptoms of a painful adjustment from higher to lower growth; and they will affect demand.

There are solutions. The immediate ones are monetary. Why can't the cash reserve ratio be brought down from 5.5 per cent to 2 per cent? Or even zero? Why should banks earn 5.5 per cent by parking their money at the RBI? Why shouldn't this reverse repo rate be slashed to 2 per cent? And the repo to 4 per cent? These measures will create more liquidity and force the banks to lend. To put a lid on monetary expansion because of inflationary fears is absurd in a situation where commodity prices have crashed everywhere.

On balance, I would opt for the monetary measures as quickly as possible. If these don't suffice — although I believe they should — I would further open the fiscal tap by reducing tax rates. The one that makes most sense in terms of its non-discretionary nature and speed of impact is eliminating the surcharge on personal income and corporate taxes.

Be prepared for pain. Plan to ride out 2009 by gritting your teeth and working harder than before. Things should turn for the better by January-March 2010. In the meanwhile, strike off the months in the calendar as you grin and bear it.

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2009 THE YEAR AHEAD

Unshackling Hope

by kandula subramaniam

IT is a new year and an uncertain one. The ramifications of the global economic crisis are not fully clear and the domestic economy is already slowing down. Surely, 2009 is going to need smart policies to make sure the economy remains inclined to grow — and with general elections arriving in the middle of the year, nobody knows this better than our policy makers.

In an internal note prepared by the finance ministry to counter the global financial crisis in October 2008, the underlying message read, "...often crises elsewhere provide an opportunity for countries to leapfrog" and here "this requires greater opening up rather than a conservative approach...".

Like the year itself, the wishlist for 2009 calls for both experience and innovation.

Ringing In The New

To start off, the new Income Tax (IT) Act and Companies Bill replace the IT Act of 1961 and the Companies Act of 1956, respectively.

The new Companies Bill promises faster incorporation of companies, stricter disclosure norms and greater powers to shareholders. By mandating more self-regulation, reducing approvals needed from the government and imposing daunting penalties on non-compliance, the lean and mean Bill has halved norms for doing business to 400.

The new Income Tax Act promises simplification, reform and rationalisation by doing away with redundant provisions and complicated jargon. It is also expected to include sweeping policy changes in corporate taxation, SEZ exemption and non-resident taxation, besides restructuring the powers of the Central Board of Direct Taxes.

More FDI

With opportunities dwindling in western economies, investments in crucial areas are waiting to happen but investors require greater equity control in the ventures they want to start in India. To enable this, the government is actively considering hiking of foreign direct investments (FDI) in some key sectors, Commerce Secretary G.K.Pillai told *BW*. These include defence manufacturing (component manufacturing, and even maintenance, repair and overhaul) where there is a proposal to hike the FDI limit from 26 per cent to 51 per cent.

Sectors such as aviation may also be opened up for FDI, Pillai says. Added to this, hiking FDI limit in single brand retail from 51 per cent to 100 per cent, with a caveat that those who want 100 per cent FDI need to have 50 per cent sourcing from the domestic market, is also on the anvil. It is learnt that companies such as IKEA have expressed interest in opening single brand stores with 100 per cent FDI in India.

Furthermore, legislation to increase FDI cap in the insurance sector from 26 per cent to 49 per cent has already been tabled in Parliament.

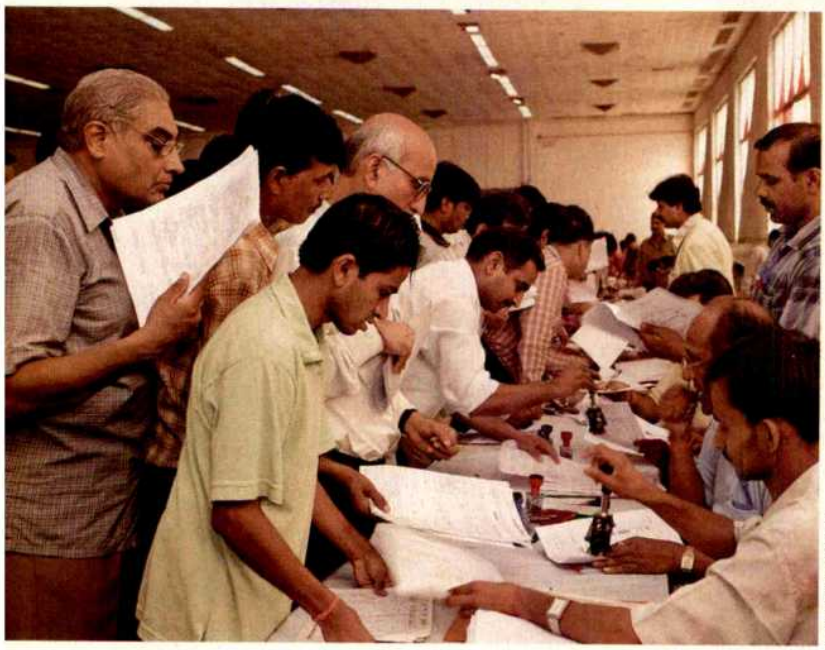
Besides the hike in FDI limits, earlier initiatives are attracting interest of investors, and the government appears to be lending them a helping hand. Japan-based Mitsui, for instance, has expressed keen interest in setting up a logistical hub in Greater Noida in UP, on the proposed freight corridor being built with Japan's help. Senior government officials disclosed to *BW* that a provision of Rs 1,100 crore has been made in the forthcoming 2009-10 Budget for this project.

If some wishes come true, the Indian policy agenda could fly in the face of the predicted gloom

Bridging The Gulf

A key member of Prime Minister Manmohan Singh's policy-making team has admitted that India needs to attract investments from fund-rich Gulf countries, which will be looking elsewhere as opportunities in developed nations are scarce. Here, some significant signals are re-

Stripes designed to flatter.
The Complete Man
Raymond
SINCE 1925



TRIBHUWAN SHARMA

POSITIVE CHANGE: The new IT Act promises simplification, reform and rationalisation by doing away with redundant provisions

quired to be sent by India. While joint ventures can be expected, investors from the Gulf will prefer assured availability of land. But land acquisition has been at the centre of controversy in 2008 — even the Tatas had to relocate the high profile Nano plant from West Bengal to Gujarat.

In fact, Confederation of Indian Industry (CII) has already asked the government to re-evaluate the Land Acquisition Amendment Bill of 2007, which says that the State can only acquire land for a private sector project if the company has already acquired 70 per cent of the land. "Industry is deeply concerned that government will no longer play a role in acquiring land for industrial development," says Venu Srinivasan, vice-president of CII. The industry body has proposed the institution of state land bank corporations, which can acquire large tracts of non-cultivable land, develop them as land banks for the future, and have a transparent mechanism to pass them on to the private sector.

Making India an attractive destination for investments also involves the removal of some self-imposed regulations, such as those on external commercial borrowings. In fact, a finance ministry note on easing restrictions on foreign fund inflows uses an observation by a member of the economic advisory council to the Prime Minister, Saumitra Chaudhuri, that "one should not persist with flood control mandates during a drought", which is the case now that global capital is scarce.

Another important part of strategy where government action is expected, according to Bibek Debroy from the Centre for Policy Research, New Delhi, is "financial sector reforms". Debroy is of the view that the Indian economy can still be expected to clock 6-6.5 per cent growth in 2009.

That Is The Question

Does India need to adopt a 'principle-based regulation' or a 'rule-based approach'? There is some fresh thinking happening along these lines in the government, particularly in view of the factors leading to the global crisis. The former lays down broad parameters of functioning, while the latter, as its name suggests, lays down clear rules of operation. Principle-based regulation leaves a lot of discretion in the hands of both the regulator (this can be the Securities and Exchange Board of India, the Insurance Regulatory and Development Authority or any other regulator in the financial sector) and the regulated, and calls for a much higher level of responsibility. Added to this, the principle-based approach helps prevent a tendency to micro manage.

There are two critical action points being considered by the government post-crisis. For one, it was the subprime crisis in US that led to the global financial meltdown. The subprime crisis relates to how assets (in this case, realty) are rated. With the tools of rating being the same the world over, it is time to re-assess the end-use of such an exercise. That is, are the results of rating analyses presented as they are (assuming data to be correct)? Or, are they dependent on the client's objective? Therefore, the government's call to review the credit rating framework, which could include 'norms of objectivity', 'conflicts of interests' as well as the 'revenue model for credit rating'.

At the other end of the spectrum, there is the view that the government must implement the Raghuram Rajan Committee's recommendations on financial inclusion. Rather than simply expanding credit, "which is like putting the cart before the horse", it is important to expand access to financial services. Thus the need to adopt a national goal that 90 per cent of households have access to a deposit account, and to payment systems.

But how much of this is going to materialise? And, does it mean there will be no hardships in 2009?

"Yes, there will be some job losses [on account of the financial crisis]... but there will also be opportunities," as Commerce Secretary Pillai says. "We can separate the good eggs from the bad ones."

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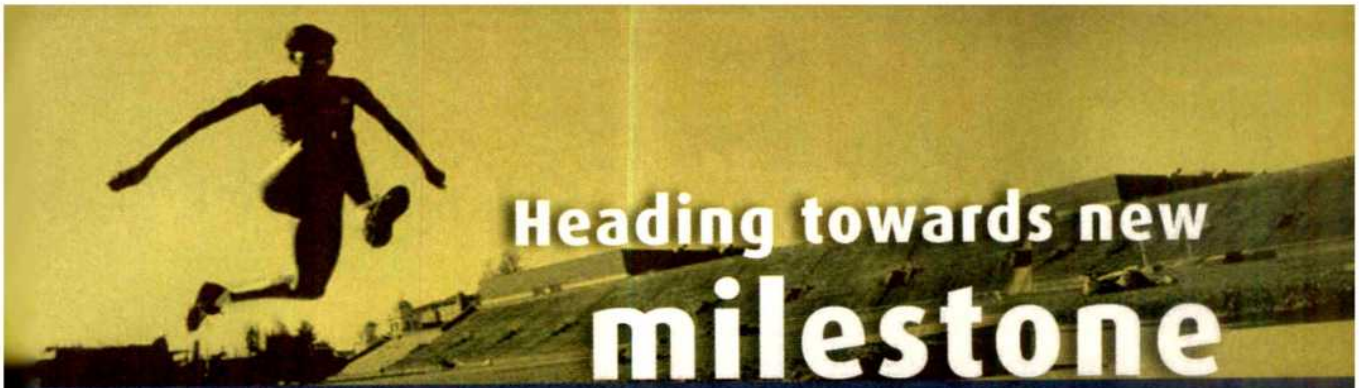


Heading towards new milestone

Q. Being one of the premier and leading B-schools of India, XISS enjoys a wide reputation in imparting high quality management education. What are the new developmental trends set up by the institute in B-school education of India?

The students are performers and form the focal point of our institute. In a sincere endeavour to make the students perform better, we are emphasizing more on attendance of the students and the teaching methods that are based on contextual ideas. The students are given a particular situation dealing with the industrial arena and are asked to work on it. This mode of teaching is an attempt to reduce the gap that exists between the theory and practical world. We intend to develop the expression capacity of the students. There are impressive lectures by our faculty members during the day and students make presentations during afternoon hours. These are the two essential methods of building expression power of the students that will enable them to communicate well in their career.

It is a regular feature of our institute to hold weekly classes to enhance the communication skills of the students. Our institute has identified the slums in and around Ranchi. The students get to interact with slum dwellers, mentally and physically-challenged kids that make them familiar with rural India. The interaction occurs thrice a week. We monitor the interactions of students with slum-dwellers and they are asked to make presentations as part of their curriculum.

Q. The institute has taken up the challenge for the B-school graduates of Jharkhand to get selected with fat pay packets and cushy jobs in the corporate world. How has it contributed in bringing a change in management education of east?

One of the oldest business schools that rest on great tradition and history, our value system has remained intact since inception. Students swear by the value system of our prestigious institute. Hence it is essential for the value system to be prevalent from the lower rung of the organization to upper hierarchy in the corporate sector.

Xavier Institute of Social Service (XISS), Ranchi has accomplished several milestones in preparing Human Resource professionals with a difference. In an exclusive interview to Businessworld, **Fr. Beni A. Ekka**, *Director, XISS talks about the future trends of the institute and the B-schools in India.*

Q. How do you see management education evolving in the east?

There are a few reputed management institutes in the east including Kolkata, Ranchi, Bhubaneswar and Jamshedpur, Bhubaneswar is on the fast track of development while Jharkhand is developing slowly. The east is yet to catch up with the rapid pace of development in B-school education of south and western region of India. The western India offers a plethora of opportunities to B-school aspirants.

Q. Do you have any global aspirations in forming tie-ups with renowned B-schools of the world?

Our institute is initially into nurturing students for corporate India. At a later stage, our students migrate overseas. We have formed tie-ups with University of Antwerp (UFSIA), Belgium and Zurich University for the faculty members to gain expertise.

Q. How do you envisage the future of your institute five years from now?

The focus is more on excellent performance of the students in keeping with the changing trends of the corporate sector. For those students of marketing management who do not perform well, our institute is into providing job-oriented outsource programme that will cater them to small-scale industries. For rural development students, we have kicked off a job-based programme of 11 months. Our institute has begun a six-month stint in retail management for the students of marketing management. We have initiated another milestone project to open a polytechnic nearly 7 km from Ranchi. Land has been acquired and the institute will come up in 2009. It will cater to the needs of rural undergraduate students.

Q. What future promise the institute holds for B-school graduates of east and India?

Our institute is into offering five kinds of post-graduate courses to students including personnel management, rural development, information management, marketing and finance management. We have plans to change the two-year information management course into three-year master in computer applications in the coming years.

2009 THE YEAR AHEAD

Picking Cherries

by rajesh gajra

A GUIDE TO INVESTMENT IN 2009

In the current economic downturn, it is wise to investigate before investing big monies

Equities	**Invest a lot**
Gold	**Invest very little**
DEBT:	
•Long-term via FMPs or bank FDs	**Invest a decent portion**
• Short-term via MF liquid schemes	**Consider deploying a small portion**
Real estate	**Wait for more fall**
ETFs & Index funds	**Invest a lot**
Insurance	**Avoid investing but take pure protection**
Commodities	**Invest a little bit**
Art	**Avoid**
Currencies	**Dabble for short-term**

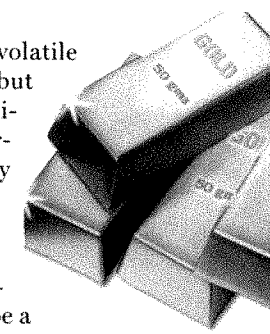
THAT 2008 was a year of retribution for most investors is not disputed. But even if you are just holding your surplus savings in a bank fixed deposit, you are probably wondering how you can hone your survival instincts to protect and nurture your investments in 2009. To get you started, we pick 10 investments through which you could fashion your investment strategy. As Nilakshi Louzade, a Pune-based investment advisor says, "Asset allocations should not depend on market conditions, but on a financial plan that is based on your age and goals. You could, however, think of tactically tweaking your allocations in 2009."

Equities

There is a growing consensus that regardless of whether foreign institutional investors (FIIs) buy equities on a large scale or not, retail investors should begin creating a well-diversified portfolio. All the key indices — Nifty, Sensex, Nifty Junior, S&P CNX 500 and BSE-200 — are down over 50 per cent from their peaks a year ago. Though indices may fall further there is no reason for not building an equities portfolio looking at a horizon of 5-10 years.

You could try both stocks directly and mutual funds, though the former may be better. You save at least 1.5 per cent every year in fund management expenses and about 1-2 per cent in entry loads. The mutual funds suffer from conflicts of interests between short-term and long-term investors that lead to sudden outflows or inflows when few large short-term investors pull out or invest in the schemes, thereby harming the interests of the long-term investors. If you are in the age group of 25 to 45, then you should invest between 40 per cent and 80 per cent of your surplus savings in equities.

Gold



Gold has been volatile through 2008, but mostly, it has appreciated. Given the uncertain and potentially harmful geo-political conditions in the Indian subcontinent and elsewhere, it might not be a bad idea to track gold prices and be ready with your chosen investment technique — physical or gold exchange traded funds (ETFs) — should you decide to take an exposure in it. "ETFs are the better way to take a gold exposure, for buying of physical gold the margins kept by banks and other sellers are very high raising your transaction costs significantly," says Uday Dhoot, a Banglore-based certified financial planner.

Debt

Investing in debt need not be in fixed-income instruments such as bonds, debentures or deposits that give a guaranteed fixed or floating rate of interest. You could have got higher-than-usual return had you invested in a debt scheme of a mutual fund (MF) about two months ago as

Key to a targeted investment return would be to use a diversified portfolio for 2009

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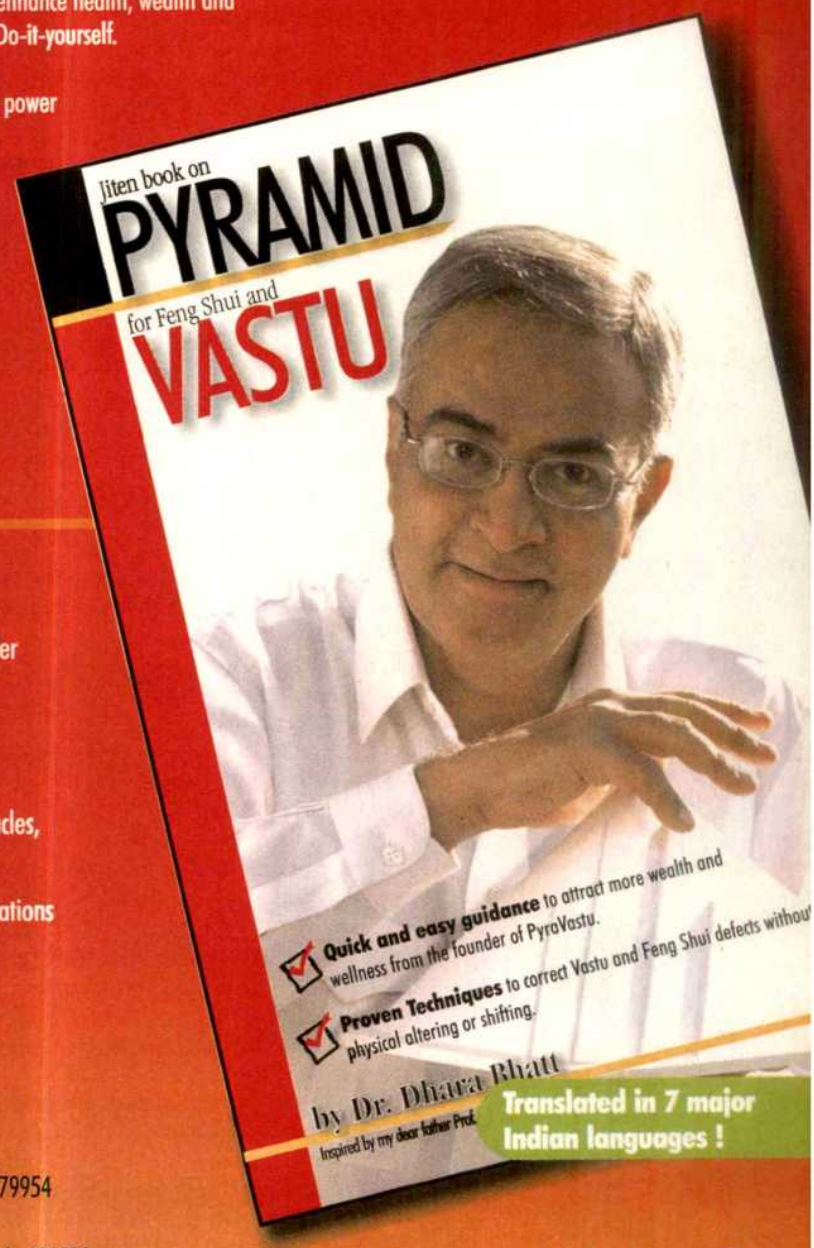

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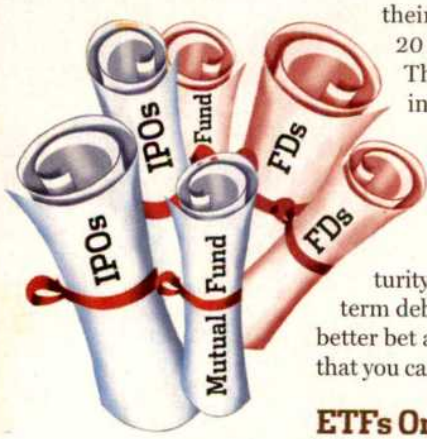

their net asset values shot up by over 15-20 per cent (annualised) in this period. They can be very volatile too. "It is an interest rate product but there is price appreciation of the debt portfolio if interest rates fall," explains Sujoy Das, debt fund manager at Bharti AXA Investment Managers.

You could also consider a fixed maturity plan (FMP) scheme, which are long-term debt instruments and stable. "FMPs are better bet as the tax implication can be avoided that you can't in bank FDs," says Dhoot.

ETFs Or Index Funds

Exchange-traded funds or ETFs are the cheapest and fastest way of executing decisions to take an exposure in equities, gold, private equity, clean energy, etc. The S&P CNX Nifty ETF, Junior Nifty ETF and the S&P CNX 500 Index Fund of Benchmark MF are among the best bets to quick, passive equity exposure that is as good as an actively-picked up equity portfolio if not better. "Our Nifty ETF has a tracking error of just 0.17 per cent," says Sanjiv Shah, executive director at Benchmark Funds. "Another advantage for investors is that you start off your Rs 100 invested in an ETF with only a 0.5 per cent annualised management fee, as against about 2.25 per cent management fee in actively managed equity schemes."

AMIT VERMA

Insurance

Use insurance products for risk-mitigation and protection, rather than using them as investment tools. "Take pure-term life insurance and go for other pure insurance products like medical, household, etc. to protect yourself from various risks," says Louzade. "I do not recommend insurance products for investment purposes." Unit-linked insurance plans (ULIPs) have attained notoriety for being mis-sold — being opaque — and for the absurd commissions of insurance agents.

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Commodities

You could dabble in futures contracts on crude oil, metals and agricultural commodities such as palm oil, soyabean, tur and other pulses. Commodity prices are at low levels currently and for short-term plays you could give it a shot. Consider going long on futures on crude oil and some metals if you think their prices are likely to bounce back in 2009. But do check with some good commodity brokers' analysts before taking a high exposure in select commodities futures.

Real Estate

2009 could very well see a meltdown in real estate prices, and throw up buying opportunities at down-to-earth prices. Property prices in Mumbai, Delhi and Bangalore have already fallen between 10 per cent and 30 per cent, and are likely to fall by another 20-40 per cent. For those who want to avoid the hassle of physical purchase of property, Real Estate Investment Trusts (Reits) may have been a good option but they are not currently available in India.

Equity Derivatives

Money can be made purely out of extreme volatility in the equity markets, by executing a straddle or strangle strategy in options contracts, on stocks or indices on the National Stock Exchange's derivatives trading segment. It is fairly simple. You buy a put option as well as buy a call option on a stock or index. The strike price chosen by you and the premiums traded on the screen will determine the band of price movement (of say, 5 per cent on the down or up) beyond which you will make a profit.

Art

We all like to think of it as being accessible, but it is not. It is not a transparent market in terms of price discovery and transaction costs but the art market is an option if you have excess savings to deploy. There are art funds you could invest in, if so inclined.

Currencies

Thanks to the exchange-traded currency futures platform (on the NSE, MCX and the Bombay Stock Exchange) you can dabble in a rupee-dollar play. The value of rupee vis-a-vis dollar has fallen this year from Rs 39 in January to Rs 48.50 at present. Since the minimum contract size for a rupee-dollar futures contract is only $1,000, or around Rs 48,000, it is even possible for you to test the waters by going long or short on the dollar. You could limit your loss and keep a pre-determined margin of profit, when you would square off your futures contract. It is expected that the regulators will add more currencies such as euro, yen and pounds to the basket of currencies on which exchange-traded futures contracts are permitted.

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Sealing The Deal

by pierre mario fitter

IMAGING: ANTHONY LAWRENCE

THE year 2009 is a do-or-die year for a new global climate change deal, partly because negotiations are scheduled to end this December. With only 12 months left to negotiate, there is still no agreement on the big issues. These include the transfer of low-polluting technology to poor countries and assigning responsibility for cutting greenhouse gas (GHG) emissions.

If the atmosphere at negotiating conferences in 2008 is anything to go by, there is little hope. "When delegates from some Muslim countries returned home for two days to celebrate Eid, other delegations also took a break to travel around Europe," says Sven Teske, director of Greenpeace's renewable energy campaign, describing the lackadaisical proceedings at the last conference in Poznan, Poland.

For future negotiations, India and China have drawn their line in the sand. "We want convergence to equal per capita emissions while accounting for historical responsibility," says Prodipto Ghosh, a member of India's climate negotiations team. In other words, if developed countries want India and China to play a role in cutting GHGs, they must first clean up the mess they have created, and give India and China access to low-carbon technology and/or funding. "This is a civilisational matter," says Ghosh. "We don't want to be second class citizens forever."

At Poznan in November, negotiators were successful in unblocking some western funding for the least developed countries. But developing countries allege that developed countries want to charge heavy royalties from poor countries to sell technology. Developed countries say that low-carbon technologies cost more because poor countries impose high import tariffs on these. But, tariff negotiations are discussed at World Trade Organization meetings, not climate negotiations, and these are also frozen because of differences over western agricultural subsidies.

Carbon trading rules are another critical negotiating area. Indian companies have made millions by selling carbon credits they have generated to European companies that have not been able to meet their emissions' reduction targets. In recent months, carbon prices have fallen partly because the current trading regime ends in 2012 with no successor is decided yet. The collapse of carbon prices has upset cash flows for many Indian projects that rely on income from the sale of carbon credits. A deal will add stability to the carbon market and encourage investments in clean technology projects.

With India and China taking firm positions, the only variable left is the US. Barack Obama's presidency promises to be a radical departure from George W. Bush's. The latter's refusal to cut American GHG emissions caused much angst. Even before he takes over, Obama has selected his lead delegate, Carol Browner — a committed environmentalist — and has promised to cut US emissions by 80 per cent by 2050.

Potential US leadership has given rise to guarded optimism. "Obama's plans are still 20 years too late but maybe there will be a 'Copenhagen Declaration'," says Ghosh. Climate negotiators will face difficulties in 2009, but their perseverance and attitude will be important.

The passive attitude of developed countries on climate change may become a political problem

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Split Wide Open

by shalini s. sharma

THE rise of ethnic politics in India has been so dramatic and unstoppable that its hot-blooded rhetoric has blurred some cold economic facts. At least two major, economically costly political events in 2008 had their roots in ethnic agitations. In May, Colonel Kirori Singh Bainsla's Gujjar Arakshan Sangharsh Samiti led a 21-day economic blockade in Rajasthan, demanding Scheduled Caste (SC) status for Gujjars on a par with the powerful Meenas of the state, also an SC. Later, in June-July, the agitation in Srinagar against the temporary transfer of a 100-acre plot of land in Jammu to the Amarnath Shrine Board cut off vital trade routes to the Valley.

"What we call ethnic politics is grounded in economic compulsions," says Sudha Pai, professor of political science at the Jawaharlal Nehru University. Large-scale migration of labour and displacement caused by developmental projects have created pockets of disenchanted communities, who have discovered they are heard better when they speak in one voice.

Parallely, regional aspirations have flowed seamlessly into the expanding cesspool of ethnic politics. Caste groups are now distinct votebanks. The Dalits and Brahmins in Uttar Pradesh, the Gujjars and Meenas in Rajasthan, the Vokkaligas and Lingayats in Karnataka, the Patels in Gujarat and the Patils in Maharashtra: their successful grandstanding and political allegiances have thrown the potential of ethnic banding into prominent light. No politician is averse to its allure, or unaware of it.

In Rajasthan, for instance, the Gujjars, a backward community that lost its only traditional means of livelihood in hunting, earned notoriety in crime from the likes of Nirbhay Gujjar, a dreaded dacoit of the 1990s. It took a Kirori Bainsla to mobilise the Gujjars into demanding SC status — hitherto looked down upon socially. Bainsla's calculations stem from the realisation that emerging out of the economic morass in which the Gujjars found them-

> Newly forming ethnic vote banks can have implications that may go beyond the political arena

REGIONAL ASPIRATIONS: The Gorkhaland agitation has found support from non-Gorkha people also

selves required extraordinary measures.

"Today, within the castes, sub-castes are fighting for their space," says president of the Rajasthan Pradesh Congress Committee (RPCC), C.P. Joshi. "Small groups want recognition in their own right and ideologically bankrupt political parties capitalise on such emotions by using them to win votes."

In another example, Raj Thackeray's Maharashtra Navnirman Sena (MNS) has succeeded in drumming up some sort of support because of the presence of large numbers of unemployed local youth. "We are against outsiders being given preference in all kinds of jobs at the cost of the locals," says General-Secretary and MNS spokesperson Sirish Parkar. "They work for less, which has spoiled the job market and local people are suffering because of that."

Indeed, "The present round of caste and ethnic upsurge is not the usual upper caste versus lower caste rivalry but a socio-economic phenomena where people in Maharashtra, even though a handful, are asking for deportation of migrants because they see them as being responsible for what they have not been able to get in life," says Professor Pai. "Ultimately, it is a fight for a share in the same pie. Till the pie gets larger, these conflicts will go on."

AP

REUTERS

ETHNIC UPSURGE: (top) Gujjars, who are demanding Scheduled Caste (SC) status, are now considered large vote banks; (above) The violence against Christian minorities in Orissa can further divide the country on ethnic lines

It Takes A Region

The present ethnic upsurge traces its roots to the emergence of regional parties as power centres in their own right. "Issues related with identity are not new," says sociologist and co-author of *Power and Contestation: India Since 1989*, Aditya Nigam. "They have only become visible now because of the proliferation of visual media." Nigam says the collapse of the Nehruvian secular nationalist discourse and the governmental way of classifying communities are the two factors abetting ethnic uprisings.

"Historically, barring perhaps the actual untouchables who were engaged in professions like scavenging, all other caste groups fall under grey categories and can be defined either as SC, Scheduled Tribes (ST) or Backward Communities," Nigam adds. "Recent ethnic agitations are power struggles centred around this classifications-based approach to governance, and the whole issue of delimitation."

The 1971 Census constitutionally provides for 79 SC and 41 ST reserved seats in the Lok Sabha. These numbers will change once the presidential nod for the latest report on delimitation is received. Even where no identity issues are involved, the mere presence of two major communities is enough to trigger rivalries. Karnataka's power tussle has always been between the Vokkaligas and the Lingayats — even though they form only 13 per cent and 15 per cent, respectively, of the state's population. "Thanks to their dominant numbers in the state, and their long experience in the political arena, you cannot ignore these two communities," says Rajeev Gowda, professor of social science at the Indian Institute of Management, Bangalore.

One Nation, Many People

Caste calculations are so complex now that even upper castes are inching closer to the Bahujan Samaj Party head and Uttar Pradesh Chief Minister Mayawati, who is identified as a Dalit leader. Chhattisgarh and Madhya Pradesh are already vulnerable to Naxalites, identified by Prime Minister Manmohan Singh as the single largest threat to national security. The Bodoland and Gorkhaland agitations in the North-East are becoming more visible. In the midst of such rising tensions, a shift to a nationalist discourse that seeks development of the nation rather than that of communities is imperative. Barack Obama's campaign to become the first African American president of the United States holds some answers, not least because it was vastly successful as well.

India's history as the world's largest democracy is far younger than its fragmented medieval and colonial past when up to 500 small kingdoms comprised the Hindustan that is now called a modern, democratic socialist republic. Communal, regional and, now, ethnic lines are re-drawing crucial national concerns. The repercussions of this trend can only be dangerous.

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The Covert Option

by vikram sood

THIS time, in Mumbai, the enormity of the ongoing tragedy really hit 'us'. The debate about the how and why and what to do next has been on for a month now, unlike in the past when bomb blasts and killings were about 'them' and handled by the 'others'. Shaken from the secure comfort of our opulence and tearful of the loss of fancy places to eat, few of us realise that in the year that has gone by, 1,007 civilians and 368 security forces personnel were killed in terrorist-related violence all over the country. There are a few important lessons from this and one can only hope that the extreme anger of November will translate into cold determination for the future.

One has also to be realistic about countering terrorism. Like crime, it will never disappear completely, no matter what laws and agencies we have. It can only be deterred and contained. The Mumbai massacres are undoubtedly a lesson about our vulnerabilities, our huge security gaps, our disjointed reaction, our media hype and our weak response to Pakistan. As a result, we are today seeing the unfortunate spectacle of Pakistan, the obvious suspect in this case and many others that have preceded this, stealing the ground from under us and screaming that Islam and Pakistan are under threat from India. The suspect has changed the rules of the debate and smuggled in Kashmir into the equation.

Mumbai happened even though there was a semblance of some intelligence, but no one connected the dots. We may not be lucky next time, and there will be a next time unless we do several things in the short term and others in the long term. Every terrorist attack is a learning experience for the terrorist and he comes back stronger and deadlier. Unfortunately, the State learns less.

> India should build up its psychological and cyber warfare to thwart terrorism

We must also admit that quite a few of the things that happen or do not happen do so because of the way we are. The contempt the citizen has for the law in India is visible on our streets all over the country, and the state shows its indifference when it fails to correct this. It is a sad reflection on our polity that promises *bijli*, *sadak* and *paani* (electricity, roads and water) as an election slogan 60 years after Independence. Obviously, the State has receded when we find that those who have the means no longer depend upon it. They get themselves a generator when the State does not supply electricity, dig tube wells when there is no water, and hire private guards when there is no security.

Tata Group Chairman Ratan Tata's comment — "We will protect ourselves and we will try to deter such activities again and we will seek external expertise for the same" — has a significance that may have escaped many. What he is saying in effect is that India will have to move up from the present system of merely gated communities with unarmed guards to a system where the corporate sector must learn to anticipate and protect itself against lethal attacks. In a sense it means that the State will not or cannot protect or provide security to all its national assets. Possibly this means entering into the sphere of corporate warriors where each big corporate house has its own security apparatus more in the style of Blackwater, Dyncorp or Vinnel of the US. It was Dyncorp personnel who provided security to Afghanistan President Hamid Karzai in the initial days. Considerable security work has been outsourced in Iraq and Saudi Arabia to private warriors. Maybe that is the need of the hour because the first thing that we need to do in the short term is to protect ourselves and to make our vulnerable national assets invulnerable.

This would leave the State free to handle those responsible for spreading terror. This means taking on Pakistan differently from the way we have in recent years. Talking peace with Pakistan may be necessary, but we should not delude ourselves into assuming that Pakistan's attitude will change. With a 7,500-km sea frontier and porous land borders, we will always be vulnerable to terrorist attacks launched by an implacable foe. They cannot be guarded by good intentions and fond hopes. Pakistan has been fighting a proxy war especially after 1971 at places and times of its choosing. It is a total

Let's see which one I haven't maxed out yet.

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EXTERNAL THREAT: With a 7,500-km sea frontier and porous land borders India will always be vulnerable to terrorists

war against India and we must treat it so. Other than adopting defensive postures, we have done precious little to teach the perpetrator a lesson.

Getting ready for Pakistan and its terrorists extends beyond modernising the armed forces with the latest aircraft, tanks or submarines. It means above all ensuring a highly professional and sharp intelligence capability. It means equipping our specialised forces with the most lethal and suitable equipment, and keeping them agile, trained and mobile for all times. It means empowering the local state units adequately in every sense of the word to be the first respondents in a crisis. It means developing a covert option.

This probably sounds sinister, but a country's national interests are protected by hard-nosed realism and not by soft options. A State is respected by others only if it is able to protect its interests and project its power. If India is seen to be soft and weak by our neighbours, we will lose respect even here. The covert option is something many States have and they use it, too. The Americans are quite free and easy in announcing that they have set aside funds to destabilise an unfriendly regime. The same rules do not apply to us but the principles of trade craft are usable.

Covert action can be of various kinds. One is the paramilitary option, which is what the Pakistanis have been using against us. It is meant to hurt, destabilise or retaliate. The second is the psychological war option, which is a very potent and unseen force. It is an all weather option and constitutes essentially changing perceptions of friends and foes alike. The media is a favourite instrument, provided it is not left to the bureaucrats because then we will end up with some clumsy and implausible propaganda effort. More than the electronic and print media, it is now the internet and YouTube that can be the next-generation weapons of psychological war. Terrorists use these liberally and so should those required to counter terrorism. The third weapon in the covert option is the use of cyber techniques. This is an ability to intercept cyber networks and communications, cripple systems and carry out counter attacks on the enemy's systems. In a country that boasts its brain power, it should not be difficult to find such expertise.

Despite the latest drama on our borders, future wars are unlikely to engage massive armies locked in prolonged battle for real estate. Attacks could be of the Mumbai kind or come by stealth, master-minded by some computer whiz kid and the targets are our ways of life. Unless the State learns to be flexible and agile, and unless there is full international cooperation, it will always be an uphill struggle with the peak never really visible. The covert option is more than just blowing bridges and killing innocents. At all times, it should form part of a State's armoury. It takes years to build this capability and just a few weeks to destroy this.

The author is a former secretary of Research & Analysis Wing (R&AW)

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The Rules Will

by feroz ahmed

REUTERS

RULING THE ROOST: Cricket will continue to rule the business of sports in India in 2009

THERE is a sporting chance that the business of sports will give a slip to the prophecies of doom in 2009. Even as India Inc. goes through the pain of market correction, Indian sports is throwing up new faces that could sell a million bottles of cola or chyawanprash or hundreds of thousands of cars, mobile phones or television sets. "Smart marketers will continue to invest in branding through sports and sports personalities to attract customers who are being frightened away by scary noises emanating from companies themselves," says sports marketer Navroze Dhondy, director of Delhi-based Creatigies.

It is easy to see the point Dhondy is trying to make. Many long-standing spenders on sports-based marketing are doing all right. Hero Honda's sales this financial year have grown by double digits percentage; so have PepsiCo India's. Consumer electronics majors LG and Samsung have enjoyed spikes in sales during the festive months of October and December. "We don't see any sense in retreating in response to the consumer's retreat," says Hero Honda's senior vice-president for sales and marketing, Anil Dua. "We're continuing to spend on brand building in addition to launching new products to sustain demand." Hero Honda has used the cricket platform since 1996. Besides sponsoring the recent India-England series, it is one of the partner-sponsors of the Twenty20 Indian Premier League (IPL) and is also the main sponsor of its Delhi franchise. The company also sponsors golf's Indian Open in Delhi; in 2008 it doubled the prize money to $1 million. "Sports is a proven marketing platform for us and we'll continue to use it," says Dua.

LG, another company that has patronised

New stars from 'other' sports could emerge as significant brand endorsers in 2009

Change

cricket for long, is also persisting with sports-based marketing, though it is now using sports to push specific products rather than the corporate brand. It was one of the broadcast sponsors of the Indian Cricket League (ICL) in the September-December 2008 period. "We will continue to use cricket to target the male audience for our televisions and mobile phones," says the company's director for sales and marketing, V. Ramachandran.

Even troubled companies with sporting properties are staying in the game. JK Tyres & Industries, which lost money in the July-September quarter, plans to maintain sponsorship of all its races from karts to Indian formula racing and also Indian racers competing globally. "The only expense I plan to cut down on is hospitality," says the company's head of sports, Sanjay 'Hardy' Sharma. Apollo Tyres, which is sponsoring an academy to produce a Grand Slam tennis champion from India by 2018, will continue the Rs 10-crore-a-year programme in 2009, according to Anirban Das Blah, CEO of Globosport, the firm that is managing the programme. Even real estate major DLF, despite sharp drops in demand for housing and its valuation, is committed to its Rs 40-crore-a-year, five-year title sponsorship deal with IPL. The company will continue to sponsor the $120,000 prize money for Women's Indian Open golf.

One notable exception has been real estate start-up Emaar MGF. The company entered the sports sponsorship arena with much fanfare in 2008 by bringing two international golfing events to India — one $2.5-million event for men and a $2.8-million event for women. However, due to their cancellation by their licensee 'Golf In Dubai' on account of economic downturn, the company has jumped the sports platform with obvious loss of prestige to the brand.

Cricket Reigns Supreme...

Cricket continues to be hot property. The Indian team has had a fantastic 2008 beating world champions Australia and then routing the English. FMCG major Dabur India is among several companies to sign up Indian cricket captain, Mahendra Singh Dhoni, for brand endorsement. Dhoni, according to his marketing agency Mindscapes Maestroes' Managing Director Yudhajit Datta, is not charging Rs 6-7 crore per endorsement. Dabur's CFO Rajan Verma says the company is looking to expand its marketing spend. Besides, young cricketers such as Cheteshwar Pujara, Rohit Sharma and Ajinkya Rahane could be hot properties both in cricket and in brand endorsement.

Now, after the postponement of the IPL Champions League to October 2009, and the subsequent cancellation of India's Pakistan tour, fans' craving for IPL's second season will be higher, according to Joy Bhattacharya, team director of Kolkata Knight Riders, the Kolkata franchise of IPL. "We have not seen any withdrawal of sponsor or even a request for renegotiation," he says.

ESPN Star Sports (ESS), which has more top cricket in its inventory for 2009 than any other broadcaster — ICC Champions Trophy, ICC T20 World Cup, and IPL Champions League — is confident. "CEOs will not stop spending on brand building for a six-month downturn," says ESS' Managing Director R.C. Venkateish. "There is enough money around for the prime properties."

And Other Sports Now Have Stars, Too

Outside cricket, boxing, shooting and badminton have become popular. Vijender Singh won India's first boxing medal at the Beijing Olympics. He is also now the first boxer to bag an endorsement — with Bajaj Allianz Life Insurance. Shooting, though viewer-unfriendly, has got a big boost with Abhinav Bindra winning the country's first individual gold at the Beijing Olympics. Having bagged a multi-crore deal with Samsung, his gold medal is worth a marketer's rupee until the next Olympics.

Badminton player Saina Nehwal has been the find of 2008 in Indian sports. Having smashed her way to the top 10 in the world, she looks set to go higher in 2009. At Rs 10-15 lakh an endorsement, she is still a bargain in the endorsement market.

Notwithstanding the promise, 2009 will be poorer for not having the Premier Hockey League (PHL), and the Sunfeast Open and Bangalore Open tennis events. However, one important trend in 2009 would be a correction in broadcast sponsorship and advertising rates. "Though events like IPL will be indispensable for mass marketers, they will not be willing to pay huge premia for such high impact windows," says Basab Datta Chowdhury, CEO of Madison Media.

Overall, 2009 should be another good year for the business of sports. The marketers will get on with the game, one sport or another.

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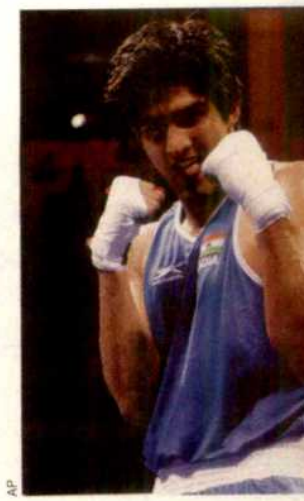

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STAR FACTOR: Vijender Singh's boxing bronze in the Beijing Olympics has helped draw attention to the sport

GADGET TECHNOLOGY

Top 5 Trends For 2009

by P. Hari in San Francisco

Innovations that are all set to move from labs to the markets in 2009

THERE are two clear trends that are driving the gadget world. One is that of convergence: devices are performing multiple functions more than ever before. And the other is what we can call, for want of a better word, specialisation: devices are increasingly being designed to do one thing well. These seemingly opposite trends appear reconciled if we consider a third trend: consumers are buying more than one gadget to perform the same function.

Consider smart phones that are now accumulating feature after feature. They can help you surf the internet, take photographs, send and receive email, play music... Tomorrow's phones will project your presentations, have GPS (global positioning system) and Wi-Fi connectivity by default, and drive a large number of applications with more processing power and memory.

So, do we still need our laptops? We do, and not just one version. Enter the ultramobile device, a fuzzy and catchall term that is used primarily for a small device to surf the internet. "The ultramobile device will sell 200 million units a year by 2013," says ABI Research's Principal Analyst Philip Solis. In 2008, an estimated 10 million were sold.

The next two years will probably be watershed years for mobile gadgets. By the end of this year, or early next year, we will see some new technologies that are going to bring in fundamental changes. We have randomly picked a few of these: ultra-low voltage and fast processors, complex input mechanism for devices, sophisticated user interfaces, continual miniaturisation, and so on. See how they shape up by the end of this year.

The Processor

The processor may be evolving too slowly as far as desktops and laptops are concerned, but it is the most rapidly changing part of hand-held devices. A desktop or even a laptop has plenty of power and space at its disposal. But the proces-

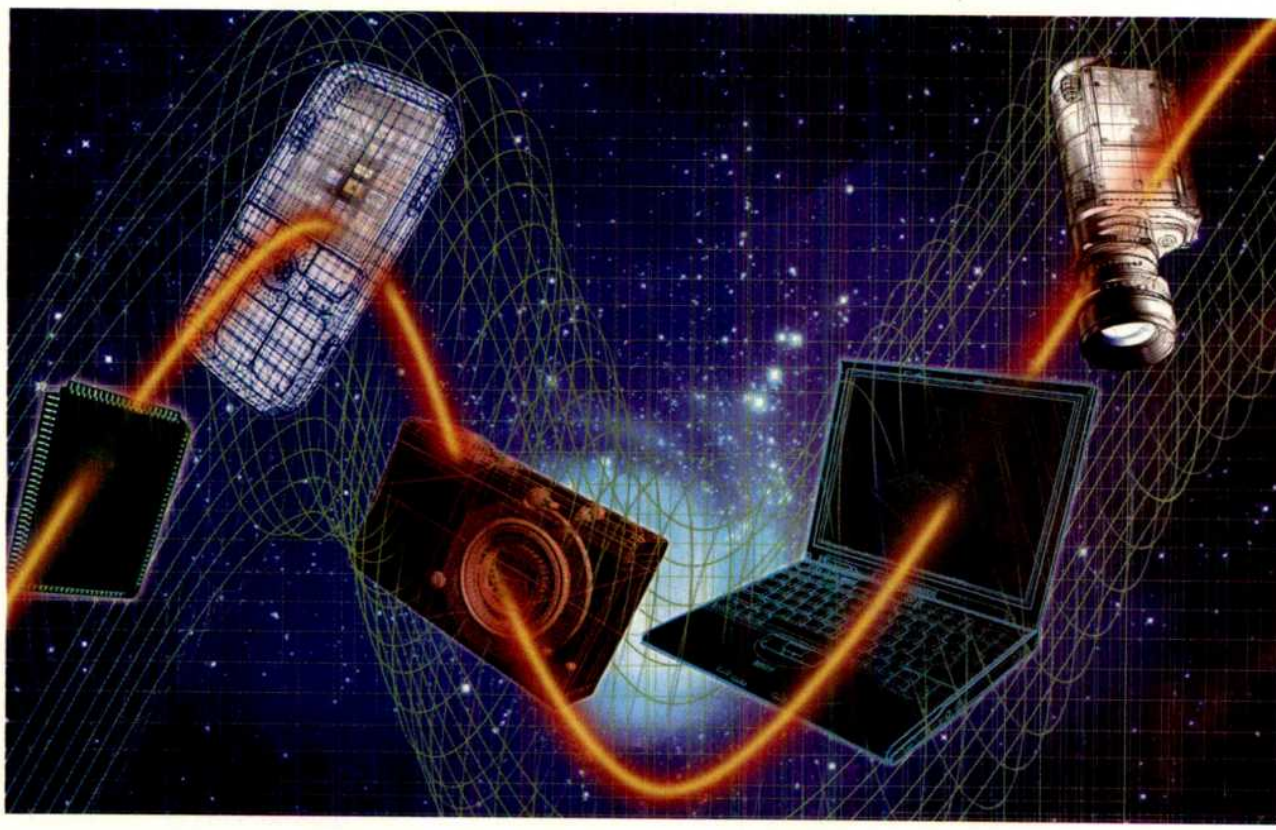
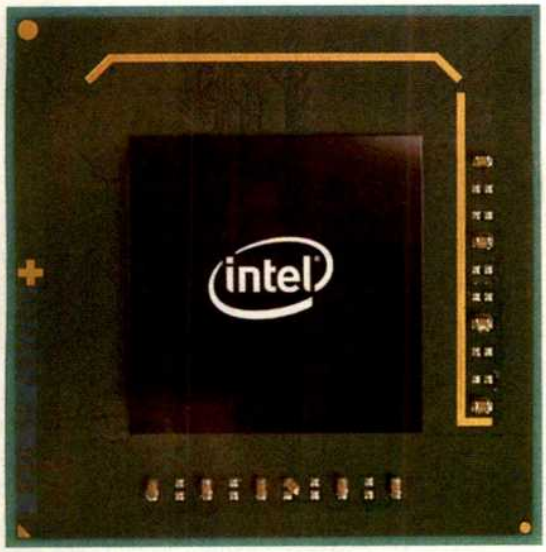


ILLUSTRATION: ANTHONY LAWRENCE



sor of a mobile gadget often fails to measure up when connected to the internet. A mobile phone is fine for email and some basic surfing, but many applications — such as a flash-enabled video — do not run well on it. How can you bring the full internet experience to a mobile gadget?

You could wait till the mobile phone processors and memory improve enough to handle the full internet. An alternative approach is to develop an entirely new gadget altogether, powered by special processors. Which is why Intel introduced the Atom (in 2008), a processor that consumes one-tenth the power consumed by a dual core processor, this year. Atom gave birth to the mini notebook that is now being manufactured by most PC vendors. It is smaller than a laptop and larger than a smart phone. "Our internal research two years ago revealed that people do not mind buying multiple devices," says Pankaj Kedia, director of the Global Ecosystem Programmes of the Intel Ultramobility Group.

But Atom is still too big and power hungry a processor for a smart phone. So, by the end of this year, Intel will launch a new platform, now called Moorestown, for mobile devices. It will shrink the processor further and cut the power consumption to a tenth of what is used by Atom. It could drive another generation of mobile devices, but we might see them around only by the end of this year, or even sometime next year.

Other chip makers are also developing new products. Texas Instruments will launch new low-powered floating-point Digital Signal Processors (DSPs). Qualcomm's Snapdragon will have two cores in a 1.5-gigahertz processor. British company ARM, which supplies the hearts of 90 per cent of the world's smart phones, is optimising its products for Adobe Flash players (80 per cent of Web video is delivered using Flash). These chips will be available this year, and will make video viewing — and posting —from a smart phone much easier.

Mobile Broadband Networks

In an era of networking, the surprising point is not how much devices have networked but how little. Smart phones and PCs are of course connected to the internet, but a large number of other devices are still not. The ubiquitous camera is not, and neither is the printer, the navigation device and many other devices. You cannot, for example, take a picture using your SLR camera and immediately send it to someone while being on vacation, without using your PC or a Wi-Fi network (some cameras have Wi-Fi capability). This situation will rapidly change over the year, with the global deployment of 3G networks.

Many portable gadgets over the year are expected to come with 3G cards embedded in them. Once 3G deployment is truly widespread and cameras come with 3G capability, probably in the later part of this year, you need not use a PC anymore to upload your pictures. You can do this now but only in Wi-Fi hotspots. 3G cards in cameras will let you upload pictures to your Picasso album right away and then delete them from the camera. In fact, 3G could even change the internet. Says Mohan Kumar, executive director of Norwest Capital Partners India, a Silicon Valley

FULL EXPERIENCE: New processors from companies such as Intel, Texas Instruments and ARM will completely change the way people use the internet through cellphones. (below) HP is developing printers that will wirelessly connect to phones through the internet

venture capital firm, "The morphology of the internet will change to suit the mobile." Till last year, Kumar was the vice-president of Mobile Devices Software in Motorola.

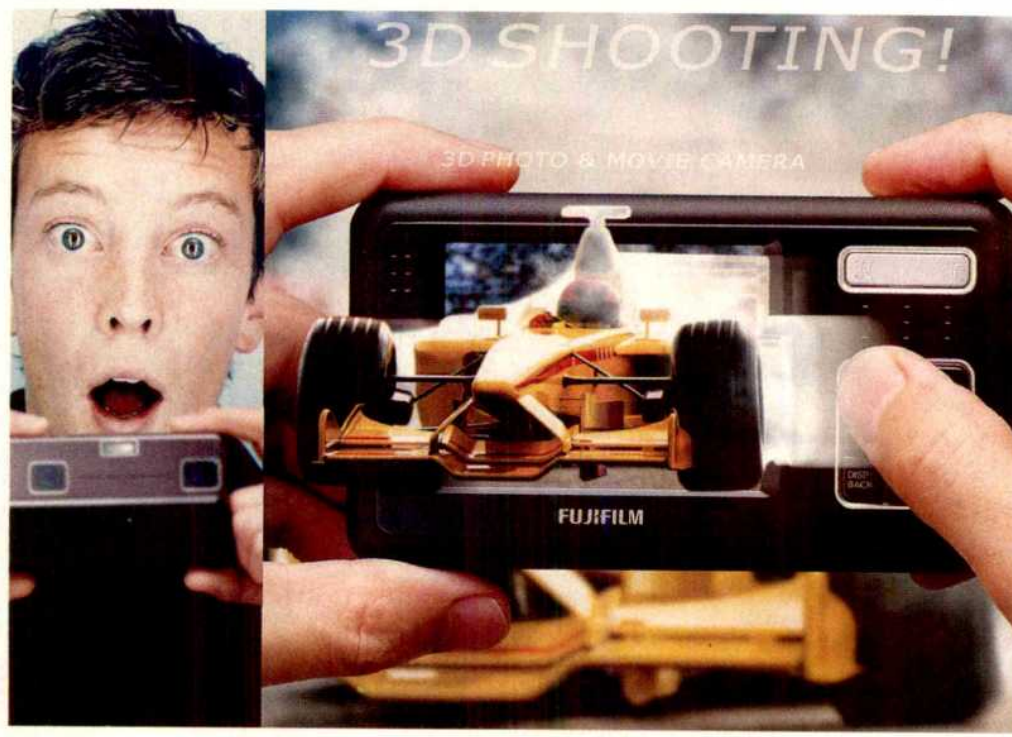
There are other interesting developments in wireless networking. The US Federal Communications Commission has decided to open up previously-restricted parts of the megahertz frequency band to mobile device manufacturers. So far this frequency has been available only to television broadcasters. Now wireless companies can use the so-called white spaces in frequencies that are not used by the television companies, and send high speed data over hundreds of kilometres. It will usher in a true wireless revolution in the US, and in other countries when they open up white spaces (UK regulator Ofcom is doing it already). However, there are some technical issues to be resolved for gadget makers, and it will take at least two years for us to see phones or other gadgets using white spaces.

3D Cameras

The real world is three dimensional, but most cameras are not. The first three dimensional cameras were developed in the 1950s and have been used for making movies and in some niche applications. They have not, however, become mainstream consumer products. But they are on their way to becoming so.

Later this year, Fujifilm will launch a 3D consumer camera. It can shoot pictures in 3D, which can be printed or viewed through a 3D viewer without using special glasses. It is even supposed to have an LCD playback. This will start, assuming the quality is good (many existing 3D cameras produce poor quality images), a fundamental shift in the camera world.

Sometime in the near future, probably even by the end of the year, computers will come equipped with 3D cameras. A 3D camera will provide sophisticated inputs to the computer about the user, with momentous implications for virtual worlds and gaming. Avatars in Second Life, for example, will be able to react to what their creators do in the real world. For example, if you move your hand, it will move its hand in a similar way. If you look left, your avatar will look in the same direction. Such prototypes already exist and have been demonstrated by some companies, one of them the Silicon Valley-based Kapor Enterprises, being run by Mitch Kapor, the creator of Lotus 1-2-3. Gamers will surely love these inputs, and so would designers. A designer can move a solid object in the real world with his or her hand, and the camera would pick up the movements



REAL LIFE LIKE: 2009 will also witness the launch of advanced 3D cameras from companies such as Fujifilm, which will allow users to take three dimensional pictures

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Session Name: Panel Discussion on 2020 IT department –Challenges and way forward

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Director General National Council of Science Museums, India

Session Name: Industry Academia collaborations: Linking Industry needs and research to innovations

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POWER PRESENTATION: A new technology from Microsoft, nanoTouch, will raise the bar for touch-screen mobile phones. (right) Cellphone makers are also working on incorporating projectors in future smart phones

and replicate it in the design. The possibilities are limited only by the imagination.

From Multi-Touch To Nano Touch

The touch screen has been one of the most interesting smart phone innovations in recent years. After the concept was pioneered in iPhones, others have followed suit. Research in Motion (RIM) recently launched the first touch-screen Blackberry, the Blackberry Storm. However, multi-touch technology is in its infancy, and has many limitations.

To mention one, it allows only a single click at any point of time. But multi-touch screens are expected to evolve rapidly over the year and the next few years. And using pressure, rather than touch, on the screen could probably be the next in thing (the technology is still in the research stage). It will let you slide objects underneath other objects. The space in the display can in this way be used much better, which is especially useful in handheld devices.

While using multi-touch technology, the hand obscures the screen while the device is in use. Several companies are working on this problem, and one of them is Microsoft Research. A new Microsoft technology, nanoTouch, to debut this year, is expected to solve the problem. Instead of using the front of the screen, nanoTouch uses its back. The point of touch will be seen as if the screen was transparent. Mirosoft has not yet revealed much about the technology, and will announce it later this year.

Convergence

The trend of convergence will continue this year, in at least two ways. Gadgets will acquire additional functions, and new devices will be created combining different technologies.

The smart phone now has so many features that it is difficult to imagine it acquiring more functions. But shrinking geometries can often work magic. The smart phone is set to absorb another gadget, the projector. Projectors have been shrinking steadily, and some are now so small that they are called pico projectors.

A pico projector is small enough to be put inside a laptop, and is indeed tiny enough to be packed inside a phone. They are also cheap now, making it viable for mobile phone companies to launch handsets with pico projectors in them. So you would be able beam a PowerPoint presentation during a meeting straight from your smart phone.

Convergence — or confluence, if you will — is creating new devices as well. If you combine, for instance, the Atom processor with the widespread availability of 3G, you can get new devices with surprising features. A few months ago, US-based Clarion launched an internet-based car entertainment system. This has a GPS that can guide you through the roads, and also a multimedia entertainment system that uses the internet for inputs. In fact, the internet is expected to become a basis for car entertainment in areas where 3G is widely available. Kevin Kuenzie, senior manager for retail marketing at Clarion, says, "The next generation of wireless can drive the adoption of internet-based entertainment systems in cars even more than now."

And what is more, 3.5G and 4G are on their way in developed countries. India can also be part of this landscape after 3G picks up in the country.

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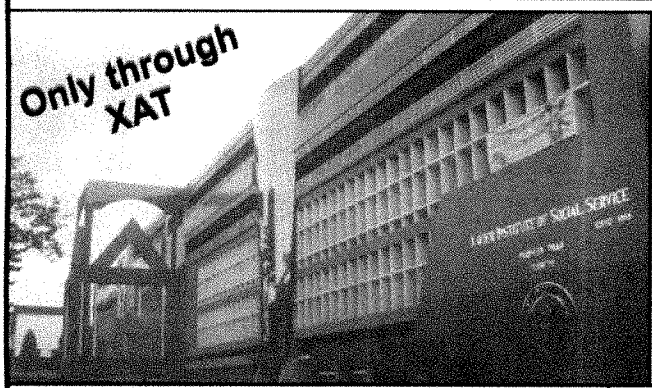

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LIFESTYLE

Fashion: Tre

Fashion gurus keep the downturn in mind and suggest style tips that are simple, understated and minimalist *By Shalini S. Sharma*

◀ WILLS LIFSTYLE

ITC's high-profile retail brand is betting big on jackets this winter. For that classic look, go for those old British-style pieces with paisley prints and contrasting collars and cuffs. The fabric for these fully-fused floating garments can be moleskin, velveteen and soft corduroy in colours such as Turkish coffee, pirate black and kangaroo. For women, the jackets are styled with exaggerated details such as big sleeves and collars. The colours can range from bold red to romantic wines and from shimmering fuchsias to classic blacks. In cool casuals, there are stylish knit and woven jackets with sporty details.

RITU KUMAR ▶

The diva of fashion feels, "There is no real concept of corporate wear in India. We are still in a state of exotica where a black business suit is not really the most preferred office wear." Be that as it may, her styling tips for the coming year include carousing with cottons. The recession, she says, will make people do a reality check and keep synthetics — that make air conditioning indispensable in summers — at bay. Her favourites are going to be kurtis, teamed up with anything from trousers to churidars. Khadi will be big and the predominant colour for the summers will be white.

nds for 2009

HUGO BOSS ▸

The German fashion brand that retails through more than 5,000 stores worldwide, is the big boss in menswear. For the coming spring-summer season, Hugo Boss advocates a relaxed look, as much for the golfing enthusiast as anybody who enjoys an outdoor lifestyle. The classic golf look has been reinvented using sophisticated details, modern cuts and stand-out colour combinations. There is a fun mix of argyles, stripes and checks, and a focus on graphic designs that change colour depending on the intensity of the sunlight.

◂ FALGUNI AND SHANE PEACOCK

True to its name, the designer duo, known for its iconic Peacock brand, is identified with a riot of colours and embroidery. But exemplifying that even designers keep everyday realities in mind while creating couture, Falguni says, "Recycling of wardrobes will be in vogue because of the downturn." There will be more playing with sheer fabric rather than embroidery and other embellishments. Accessories such as scarves and stoles will be a big hit in changing the looks of garments and creating a winning combination.

ARSHIYA FAKIH EAPPEN ▸

Her label Araiya is reputed for its minimalist style and funky design. For next year, this high priestess of fashion predicts more western influence in corporate wear. Skirts will be lean and clean, dresses short and silhouettes straight. Western dresses, she says, are easier to wear and maintain, and hence there will be a shift from saris to shirts and trousers. For women, the blouses will see a lot of play in sleeve styles — capped or puffed-up and prints will be floral. The length will vary between three-fourths and mid-elbow, and the look will not be voluminous. Jewellery will be minimal, but accessories such as bags and shoes will play a huge role in styling.

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▲ **ANITA DONGRE**

And she comes out with flying colours with her label AND, which is all about western wear that is trendy, stylish yet affordable. Her forecast for next year — simple and clean cuts with a comfortable fit. Some new-age fabrics such as modal and viscose-cotton blend will come in currency, and the hot colours will be red and yellow. Especially yellow "since in times of gloom it is yellow, which brings cheer and brightness on a face". Her preferred fabrics will be ones in crushed textures. Embellishments will largely be delicate and the silhouettes will range from trapeze to tulip.

WAFA SAIFI ▶

The debutante designer who began her career showcasing her collection in Dubai this year, is deeply inspired by over-the-top gold jewellery from ancient Egypt and the Middle-East. She sees next year in various shades of blue, purple and washed-out aqua — nothing bright or luxurious for her. The look she is betting on is casual and minimalist in fabrics that are soft, such as chiffons and georgettes, and at the same time embellished with lots of metallic trimmings. The silhouette, according to her, will be loose, not clinging to the body, accentuating its shape, at the same time hiding its flaws.

In Vogue

VARSHA BHAVNANI ▶

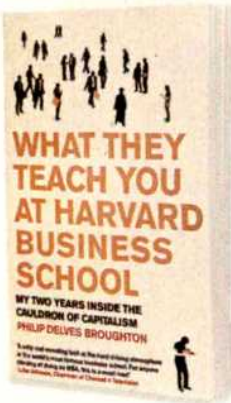
This Bangalore-based ISB graduate, known for her Vinegar brand and the cool stuff it offers to customers, in all shapes and sizes, recently came out with another first — an EMI facility for her wardrobe consultancy services. Bhavnani's mantra in life—love thyself, "since style is a reflection of personality and not a victim of your body type". Her advice — mix and match to try something new. Tip for next year — take a classic style and give it a quirky twist.

◀ SHAAHID AMIR

A name to reckon with in Bollywood, he was the stylist for Aamir Khan in *Dil Chahta Hai* and has die-hard clients in Fardeen Khan and Saif Ali Khan. The style guru recommends "loud pink, purple and yellows" in shirts for men and women with button-down collars and cuff links. In trousers, he predicts parallel drainpipes with medium-width belts and pinstripes on navy blue or other dark colours, for suits. His preference in corporate wear for women is western attire in soft crepe, which is "easy to maintain and has a great fall".

▼ TARANA MASAND

Another favourite Bollywood designer, she predicts fitted shirts with knee-length skirts and short, fitted jackets for office wear. Trousers can be cigarette pants, flares or straight fit. While colours will remain neutral in office garments — blacks, greys, whites and pale pinks — in formal Indian wear, Masand's choice remains an exquisitely embroidered Anarkali kurta, reminiscent of the Mughal era. These will be fitted kurtas till the waist and flare out thereafter.



What Life's Like At Harvard

by vishal krishna

WHAT THEY TEACH YOU IN HARVARD BUSINESS SCHOOL: MY TWO YEARS INSIDE THE CAULDRON OF CAPITALISM; BY PHILIP DELVES BROUGHTON; PENGUIN BOOKS; PAGES: 304; PRICE: Rs 395

THIS FAST-PACED INTROSPECTIVE ABOUT HARVARD is a definitive guide to all those who want to experience life in a B-school. For those readers who have spent their lunch and between meeting hours reading the Harvard Business Review, beware, you may not find the usual reverence that one is used to, when talking about institutions like Harvard.

The author, Philip Delves Broughton (a former political journalist) narrates his experiences while trying to fit into an elite group of B-school students. Wittily written, the author turns the subject of being left out into a comic read. "I had learned the language of business, the modes of thinking..." says Broughton in the last chapter of the book after hearing Warren Buffet say, "If you want to change the world, fly to Darfur".

The story begins with Broughton recalling the entrepreneurial spirit of his great-grandmother in Rangoon, Burma. From absolute poverty, she managed to run a cinema distribution business and opened her own cinema hall, during the late 1930s. However, all was lost when Burma's military junta took power and confiscate all private property in Burma. With the help of Broughton's dad, an English missionary, his mother immigrated to England. Inspired by the tales of his late great-grandmother he often dreams of becoming an entrepreneur himself. But walking in to Harvard Business School comes purely by chance. His GMAT scores, he says, were "reasonable" and he clarifies that he was picked perhaps because he was a misfit from the start. Although his selection shocked him, he sets off to realise his dream. The question that constantly plays in Broughton's mind is, "why was he doing an MBA?" Especially, when his life was settled, as the Paris bureau chief of *The Daily Mail* and he was happily married with a child.

Before meeting his class, our friendly journalist has to go through one more task. Harvard requires Broughton to do a pre-school programme, where he must take hours of math lessons everyday. Here's where he also realises that he has trouble working with every computer program other than MS Word.

The first thing that strikes Broughton about Harvard is the kind of students that fly in to study an MBA: investment bankers, diplomats, soldiers, civil servants and middle-class executives flock in to the school and form their own cliques. Amid all this, the author has a tough time when thinking about life as a businessman. So, he stays true to his journalistic roots and instead becomes a keen observer of his fellow students and teachers. The first year passes with the author learning about organisational behaviour and finance. He gives us instances where he would not understand what inventory had to do with locking up working capital or how one leverages his business to offer better returns to shareholders.

Broughton's innocent observations of business life make one think about what is taught to future business leaders, especially at a time when MBAs are being blamed for turning the balance sheets of companies by debt (leverage), rather than sound economic management. This, the author says, always puts the company acquired by a private equity or hedge fund, on the block. In the end everyone makes money at the cost of the employees. He questions the ethics behind destroying something that has been built over years, by breaking it into pieces of real estate and other assets, and sell-

PHILIP DELVES BROUGHTON was born in Dhaka, Bangladesh, in 1972. He has worked as a reporter for *The Daily Telegraph*, and *The Times* of London and then as the Telegraph's New York correspondent. After studying at Harvard Business School — an experience that he writes about in this book — he returned to New York to work on various business development projects for media and financial firms.

BROWSING

Meena Kapoor
Astroyogi, CEO

I am currently reading The 4-Hour Workweek by TIMOTHY FERRISS. The book examines why business people tend to 'defer living' until they retire. It says we can use technology and processes to run our businesses while we take time to live life as we would like to. I prefer self-help and spiritual books as they help us grow as people. One of my all-time favourites is *Being Happy* by Andrew Mathews, a simple, well-written book that contains ageless wisdom. I plan to read *Dreams from My Father* by Barack Obama and Randy Pausch's *The Last Lecture*.

ing them at a profit. This leads him to ask the same fundamental question that bothers him through the course, 'Was he really cut out to do an MBA?' He finally finds retribution within himself when he decides not to compare his work with other students in the class, since they are ahead of him in terms of business acumen.

Broughton throws in funny instances, like when Google interviews him over ten rounds over three months but ends up rejecting him. He even starts reciting a tagline about being the only unemployed student in his class during graduation, although his scores have considerably improved. He graduates with a $ 175,000 debt but worries little; "He was leveraged now," the author's friend jokes when asking him to stay positive.

The beauty of the narration is that it is not a sob story about Broughton's struggles. The story is about the conflicts in the mind of every student at a B-school and how they handle pressure. It is the gruelling work schedule that makes him a tough man. Happily, life comes full circle. Like his great-grandmother's Burmese movie distribution business, Broughton finds work for a company that distributes and markets DVDs; the first step in running his own media company.

SELECTION 1

Interesting Observations

WOMAN WHO THOUGHT SHE WAS A PLANET AND OTHER STORIES
BY VANDANA SINGH; PENGUIN; PAGES: 216; PRICE: Rs 275

AFTER HER SUCCESSFUL FORAY INTO THE WORLD OF speculative fiction with a *mélange* of short stories featured in various anthologies, it was only a matter of time until Vandana Singh released an omnibus of her own. Comprised solely of original works, THE WOMAN WHO THOUGHT SHE WAS A PLANET, contains two entirely new short stories along with eight previously published tales.

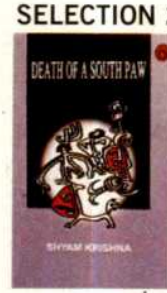
Although many of the pieces can aptly be described as science-fiction, do not be fooled. Vandana Singh breaks free of the genre's shallow and tech-heavy stigma by providing readers with truly thought-provoking and evocative stories that explore concepts of alienation, prejudice and self-actualisation. From the very offset, Singh's prowess in seamlessly creating expansive and detailed backdrops to her stories, without disrupting the flow of the narrative, only serves to further enthrall her readers.

That being said, it is imperative that upon approaching this book, you are aware of the objective and — to some degree — detached nature of the prose. Although it is inevitable that as a reader you may empathise with the various protagonists, there is a sense of apathy surrounding not only the supporting characters, but also society as a whole.

Despite this, Singh rarely attempts to force her own ideals upon readers. Instead, she simply makes stark observations concerning the state of affairs, whether it be in regard to individuals or the wider community, and allows readers to come to conclusions of their own. All in all, this anthology is not one that should be overlooked, not only does the book deliver engrossing narrative, but, upon the arrival of the various conclusions, leaves readers with food for thought.

Ricky Mani

SELECTION 2



Looking For The Motive

"LISTEN CORPSES! A SEVERED left hand has been recovered... if its owner is lying dead anywhere here, wake up and come alive. Resurrect and claim it..."

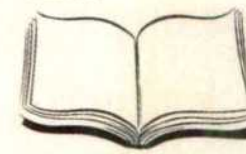
As they say, death is a joker with no sense of timing. In Shyam Krishna's play in two acts DEATH OF A SOUTH PAW, a man is slain on stage and is being carried away. But his severed left hand — the southpaw — has been left behind. Thus ensues an absurd inquiry into his identity and the motive behind his murder.

Krishna points a finger at the absurdity of how death is now hailed as a "means" while life has become the "end" to which these means must lead to. A politician who is high on the hit-list of his opponents is hacked to death by a common burglar; an irate neighbour who kills after a civil dispute gets branded (and hailed!) as a religious fanatic. Death begets death begets death; a vicious circle that countries such as India are all too familiar with. And as the playwright writes, had this not been so morbidly tragic, it could pass off for a clean comedy of errors.

Despite the darkness of the story, Krishna manages to keep the reader on tenterhooks, except for the epilogue where he too falls into the "life trap". A crisp, naively-sweet message ensues, pointing to the "suicidal nature of killing".

Noemie Bisserbe

ALERT



PAKISTAN'S MILITARY AND ITS STRATEGY
BY SHALINI CHAWLA
KW PUBLISHERS
Amid the tension that has erupted after the Mumbai attacks comes a new book about the military strategy of Pakistan. Although a democracy for official purposes, the influence that Pakistan's military wields is hardly a state secret. Chawla traces how Pakistan's army now uses everything from Pakistan's foreign relations to public and economic policy to intelligence and security as part of its grand strategy. "Know the enemy and you need not fear the result of a hundred battles," Sun Tzu once said. As the drums of war between Pakistan and India get louder, Chawla's book will fill a timely gap in the Indian public's understanding of our neighbour.

The Good Side of 2009

THE END OF THE YEAR IS A TIME OF FORECASTS FOR the next. Everyone is making one; they are all gloomy. It would not be difficult to add another one; there is enough happening around us to depress us. There will be time enough to do so in the coming year; we may often have no alternative to doing so. Let us take a holiday from despondency and look at the bright side of it — at any rate, look for one.

BLOOMBERG

Bad times are good times for some things — like cheaper housing, lower EMIs, better training, more innovation and greater overall competence

Recent times saw a significant rise in people's incomes. As a result, many things that were once considered luxuries became more affordable. Many people who once took buses or trains graduated to motor cycles, which became a prized status symbol of youth. Many who rode around on scooters graduated to cars. Both two-wheelers and cars have seen a considerable increase in variety and choice. Two-wheelers have been designed for everyone from a college girl to a hulk. It has been particularly cheering to see the number of new small cars on the streets; they have fulfilled the ambition of so many people.

The slowdown has already affected the car industry. It is not just fewer people being able to afford cars; even more, people have become more careful with their money, and more wary of taking loans. The fall in demand has had a salutary effect on the industry. Just a year ago, it could not push cars off the assembly line fast enough. Now it is trying to make cars more affordable, and linking up with financiers to ease credit. There is a limit to what it can do in respect of credit because the Reserve Bank has not seen fit to reduce interest rates much. At a time when growth is melting and inflation is coming down, it could reduce rates much more. It usually sees reason, though slowly; it will very likely bring down rates – eventually.

Another heartening development of the past few months is that prices of homes have begun to come down from the stratosphere. The cost of housing has been the most frustrating feature of the recent boom. There were jobs available by the thousands for our young people. But one cannot do a job by day unless one has somewhere to sleep at night; even a ten-by-ten-feet room cost the earth. And in the bigger cities, it would usually be many miles away from the factory or office; that meant hours spent sharing one's sweat with strangers. The shortage of housing made everyone panicky: if one did not buy a flat now, it would cost twice as much next year, was what everyone thought. That was not speculative buying; it was fearful buying. Now the fear can subside. As demand has slackened, builders have caught the panic; they are getting desperate about finishing developments, selling them off and putting their finances in order. As a result, home prices have come down a bit. They will no doubt come down more. That is something worth looking forward to.

The downturn is putting many employers into trouble. But they too now get breathing space. As long as markets were growing exponentially, every producer felt compelled to keep up with the growth. There was no time to plan, and no time to do things differently. Everyone tried to squeeze out the maximum production from the facilities available. The boom should have spread to the whole country; actually, its breathless momentum confined producers to their locations, and just added to density and congestion. If, now, they pause and take a breath, it is a good thing for them and the country. Instead of trying to produce more and still more, they will think about where they can produce most cheaply; that will lead them to new, cheaper locations.

They will not just think of better locations, but of better training and better organisation. The greatest shortage in the last boom was of qualified professionals; by the time he got some experience, a professional was ripe to be pinched. There was no incentive to train people, and no time to put them to their best use. Now producers can once again begin to think about how to recruit good people, how to fit them to jobs, how to train them, and how to use their talents to improve the business.

Above all, bad times are good times for innovation. They sharpen competition, and make entrepreneurs think about how to do things better, how to acquire a competitive edge. India's world-beating companies were created by the long slowdown of 1996-2003. To survive those tough times, firms learnt to make things cheaper and better; and before they realised they found that often they were better than their competitors abroad. The same cycle is upon us once again. Let us, however, hope that this slowdown does not last as long as the last.

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Last 1 Year	13.92%	8.52%
Last 3 Years	7.74%	6.37%
Last 5 Years	5.52%	4.68%
Since Inception (April 29,1997)	9.76%	N.A#
NAV/ Index Value (Dec. 26, 2008)	29.6524	1501.58

^Benchmark. Returns for time period less than 1 year are absolute returns. Since inception returns are calculated on Rs. 10/- invested at inception, viz. date of allotment. All returns are for Growth Option. #Since historical data for the benchmark is not available, performance has not been compared. **Past performance may or may not be sustained in future and should not be used as a basis for comparison with other investments.**

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DSP BlackRock Bond Fund (DSPBRBF) is an open ended income Scheme, seeking to generate an attractive return, consistent with prudent risk, from a portfolio which is substantially constituted of high quality debt securities, predominantly of issuers domiciled in India. As a secondary objective, the Scheme will seek capital appreciation. **Asset Allocation:** Debt & money market securities: 100% (Debt securities may include securitised debts upto 50% of net assets). **Features:** Sale and redemption of Units on all Business Days at Purchase Price and Redemption Price. Switching, SIP, SWP and STP facilities available. Min investment: - Rs. 5,000/-. Entry Load: Nil. Exit Load: - For investments < Rs. 10 lakhs: 0.50%, if holding period < 6 months, Nil if holding period >= 6 months; for investments >= Rs. 10 lakhs - NIL. Redemption normally within 3 Business Days. **Statutory Details:** DSP BlackRock Mutual Fund was set up as a Trust and the settlors/sponsors are DSP ADIKO Holdings Pvt. Ltd. & DSP HMK Holdings Pvt. Ltd. (collectively) and BlackRock Inc. (Combined liability restricted to Rs. 1 lakh). Trustee: DSP BlackRock Trustee Company Pvt. Ltd. Investment Manager: DSP BlackRock Investment Managers Ltd. **Risk Factors:** Mutual funds, like securities investments, are subject to market and other risks and there can be no assurance that the Schemes' objectives will be achieved. As with any investment in securities, the NAV of Units issued under the Schemes can go up or down depending on the factors and forces affecting capital markets. Past performance of the sponsor/AMC/mutual fund does not indicate the future performance of the Schemes. Investors in the Schemes are not being offered a guaranteed or assured rate of return. Each Scheme/Plan is required to have (i) minimum 20 investors and (ii) no single investor holding>25% of corpus. If the aforesaid point (i) is not fulfilled within the prescribed time, the Scheme/Plan concerned will be wound up and in case of breach of the aforesaid point (ii) at the end of the prescribed period, the investor's holding in excess of 25% of the corpus will be redeemed as per SEBI guidelines. DSPBRBF is the name of the Scheme and does not in any manner indicate the quality of the Scheme, its future prospects or returns. For scheme specific risk factors, please refer the Scheme Information Document (SID). **For more details, please refer the Key Information Memorandum cum Application Forms, which are available on the website, www.dspblackrock.com, and at the ISCs/Distributors. Please read the Scheme Information Document and Statement of Additional Information carefully before investing**

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*Business Today- KPMG Best Banks Survey 2008; Balance Sheet size <= Rs. 24,000 crore

2006 - 07	BANKS	GROWTH (%)										SIZE (Rs. Cr)			QUALITY OF ASSETS			STRENGTH: PRODUCTIVITY AND EFFICIENCY					QUALITY OF EARNINGS				
		DEPOSITS		LOANS & ADVANCES		FEE INCOME		OPERATING PROFIT		OPERATING PROFIT MARGIN (Basis Points)		Deposits	Operating Profit	Balance Sheet	Total NPA Growth Ratio (%)	NPA Coverage (%)	Net NPAs Net Advances (%)	Cost/ Income Ratio (%)	Cost/ Avg Asset Ratio (%)	Operating Profit/ Employee (Rs cr)	Change in Return on Assets (basis points)	Increase in Operating Profit/Total Income (%)	Return on Assets (%)	Fee Income/ Total Income (%)	RONW (%)	Net Interest Income/ AWF (Basis points)	CAPITAL ADEQUACY RATIO
		1-year Growth	3-year Growth	1-year Growth	3-year Growth	1-year Growth	3-year Growth	1-year Growth	3-year Growth	Domestic	CASA																
2	YES BANK	61.47	171.53	49.93	131.41	78.06	219.38	103.03	-558.08	0.1038	0.0480	13,273.16	350.08	16,982.42	0.14	20.00	0.09	0.49	2.43	0.11	0.0033	-4.64	1.16	16.79	19.00	0.03	13.60
	Rank	1	1	2	1	1	1	2	10	1	1	6	2	5	1	10	1	4	8	1	2	3	3	2	1	6	2

INSTITUTIONAL EXCELLENCE

NewEconomy

Received the **Most Innovative Bank in India** award at **The New Economy First Annual Banking and Finance Awards 2008**

THE FINANCIAL EXPRESS

Ranked **FIRST** on **CREDIT QUALITY, THIRD** amongst **New Private Sector Banks** and overall **SECOND** on **GROWTH** in the **Financial Express - Ernst & Young Survey of India's Best Banks for 2007**

business today

Ranked **SECOND** and the **FASTEST Growing Bank** among Medium Size Banks at the **Business Today - KPMG Best Banks Survey 2007**

THE FINANCIAL EXPRESS

Ranked **SECOND** amongst **New Private Sector Banks** and **FIRST** on **GROWTH** in the **Financial Express - Ernst & Young Survey of India's Best Banks for 2006**

Businessworld

Ranked **THIRD** and **FIRST** on **SAFETY, GROWTH and EFFICIENCY** in the **Business World Banking Special 2006**. A survey of India's Best listed Public & Private Sector Banks

WORLD ECONOMIC FORUM

Only Indian Bank to be included as a **FOUNDING MEMBER** of the Select Community of **Global Growth Companies (GGC)** at the **World Economic Forum (WEF)**, Switzerland

ERNST & YOUNG ENTREPRENEUR OF THE YEAR

YES BANK Founder / Managing Director & CEO Rana Kapoor adjudged **Start-up Entrepreneur of the Year**, at the **Ernst & Young Entrepreneur Awards 2005**

business today

Ranked **105th most valuable Private Sector Company** and **the SEVENTH most Valuable Bank** in India by the **Business Today Survey of the most valuable Companies, 2005**

BUSINESS EXCELLENCE

FT IFC

Received the **Emerging Markets Sustainable Bank of the Year Asia** award at the **Financial Times/ IFC Washington Sustainable Banking Awards 2008**

EUROMONEY

Only Indian Private Sector Bank to receive the **Euromoney - Trade Finance 'Deal of the Year'** award for a **Structured and Innovative Rural Financing Solution**

BSE NASSCOM

Received the **NASSCOM Foundation - BSE Best Corporate Social Responsibility Practice Award 2007**

FT IFC

Only Bank from Asia, Ex-Japan to be nominated across all five categories & the **only Indian Bank** to be on the final shortlist for the **Emerging Markets Sustainable Bank of the Year Award at the Financial Times / IFC Washington Sustainable Banking Awards 2006**

USAID

Received the **Environment Leadership Award from USAID, in October 2005** for contributions made through working in partnerships to improve the environment / quality of life for the people of Asia

THOMSON REUTERS

Ranked **THIRD in the All Asian Securitized Bonds League** (Ex-Japan Ex-Australia) conducted by **Thomson Reuters**

THOMSON REUTERS

Ranked **FIFTH in India Rupee Bond League** for the period January 1, 2008 to September 30, 2008 conducted by **Thomson Reuters**

The Asset

Received the **"Most Improved Local Bank in Asian Currency Bond"** and **The Salesperson in Asian Currency Bond at The Asset Benchmark Survey, 2007**

THOMSON

Ranked **SECOND** (upto $50 Mn) and **SIXTH** (upto $100 Mn) in the **Thomson Financial Rating** for **Top Book Runners of Indian Rupee Bonds, 2007**

mergermarket

Ranked as the **Top Deal Maker in the Life Sciences** sector by **Merger Market**, a leading global news service. Also **ranked EIGHTH** overall by **value of deals**

CARBON DISCLOSURE PROJECT

First and only Indian Company to be a **Signatory to the Carbon Disclosure Project (CDP)**

UNEP Finance Initiative innovative financing for sustainability

First Indian Bank to be a **Signatory to the United Nations Environment Programme Finance Initiatives (UNEP FI)**

ASIAMONEY

Ranked **SECOND** in the **"Best Foreign Currency Strategy"** and **"Best for Technical Analysis"** under the **Best Domestic FX providers Corporate at the Asia Money Foreign Exchange Poll for India in 2005**

Bloomberg

The Investment Banking Group was Ranked **FIRST in M & A Outbound Cross border Transactions** and **FIFTH in M & A overall category in the Bloomberg League Tables in 2005**

EXCELLENCE IN PAYMENTS SOLUTIONS & TECHNOLOGY

Financial Insights FIIA

Received the **Financial Insights Innovation Award (FIIA) for the Most Innovative e-Payments Solutions in Singapore in 2008**

IT People Awards

Received the **IT People Awa for Innovation in the Banki Sector at the IT People Awards for Excellence in Information Technology**

NASSCOM iCUSER Awards

Received the **NASSCOM Award for IT Innovations in Emerging India, April 2006** for the Bank's adoption of innovative technologies for increased customer satisfaction and for improving process efficiencies

nielsen

Awarded for **Innovative Use of IT at the AC Nielsen CIO Jury Award for Technology Innovatio in 2006**

THE CTO FORUM

Received the **CTO Forum OPTIMUM NCPI Award 2006 for Network Critical Physical Infrastructures**

business today

Ranked amongst the **20 most Wired Companies i the Business Today Technology Wired Companies, 2005**

SAFETY RATING

ICRA (Moody's affiliate in India) has reaffirmed the **Bank's A1+ rating for its INR 50 billion Certificate of Deposit** programme. A1+ rating indicates the highest level of safety in the short-term

YES BANK's **subordinated Tier II debt** has been assigned a long-term credit rating of **LAA- by ICRA and AA- by CARE**

YES BANK's **Up Tier II bonds** programme ha been assigned **LA+ rating b ICRA**, indicatin adequate credi quality

EXCELLENCE IN HUMAN CAPITAL

Global HR Excellence Awards

Received the **Global HR Award for Innovative HR Practices at the Asia Pacific HRM Congress, in 2007 & 2008**

HR Excellence Awards CEO With HR Orientation

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EMPLOYER BRANDING AWARDS 2007

Received the **Continuous Innovation in HR Strategy Award to recognise the pursuit of Excellence in Human Capital at the Indiatimes Mindscape Employer Branding Awards, 2007**

Received the **Most Innovat Recruiting & Staffing Programme** at the **Recruit And Staffing Best In Clas (RASBIC) Awards, 2006**

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AN INCONVENIENT TRUTH

The Satyam fiasco shows how auditors who see no evil, regulators who hear no evil, and credit rating agencies who speak no evil are corroding India Inc.

+

IIMs at a crossroads PAGE 34 Adlabs' reinvention PAGE 36

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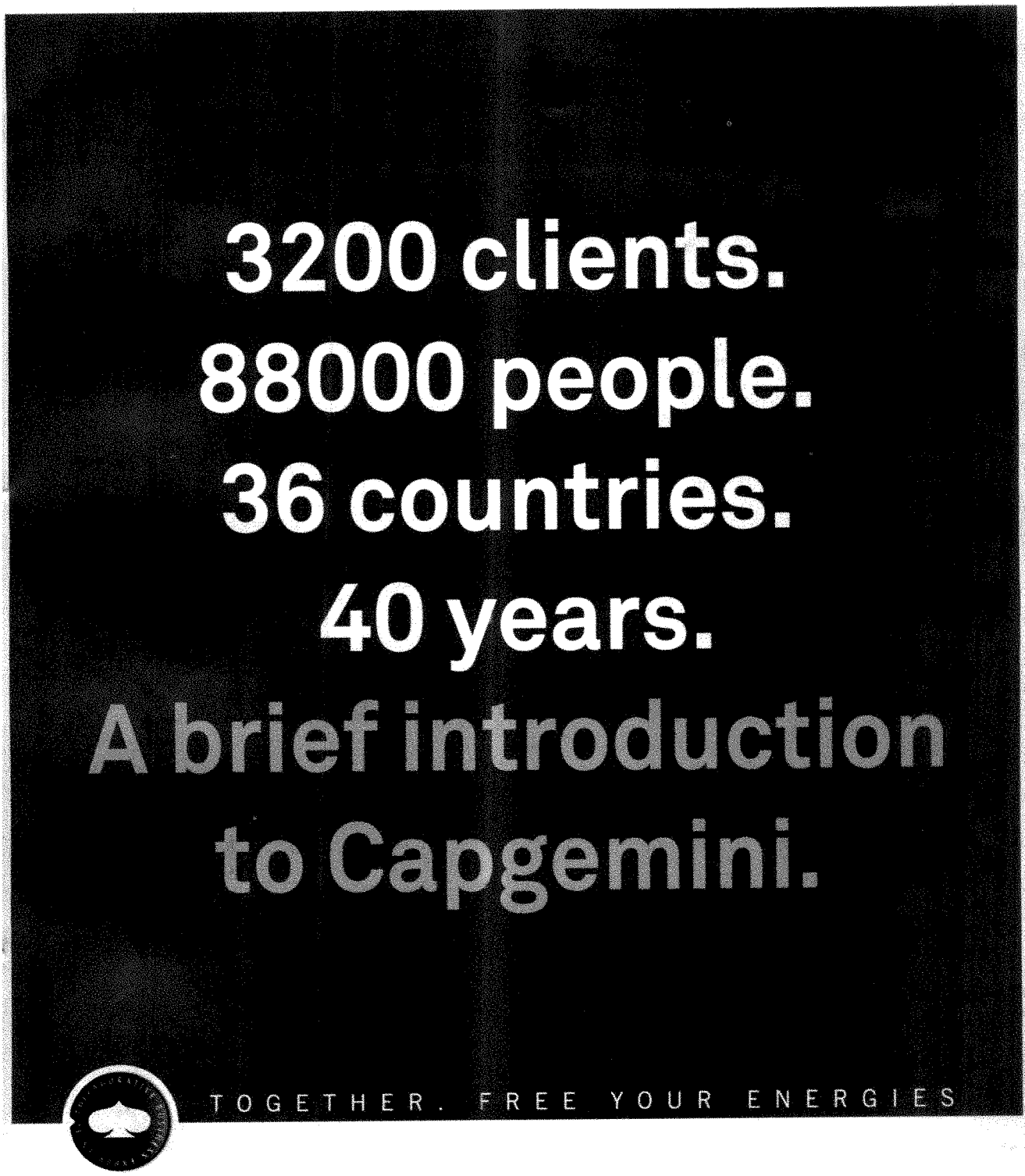

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Wanted: The Whole Truth

IT IS INTERESTING TO see the world turn on Ramalinga Raju. His *mea culpa*, whether taken at face value or not, has made him easy pickings for those eager to shroud themselves in a holier-than-thou guise, and he has become the new face of India's crony capitalism.

Yet, the regulators, politicians and commentators busy persecuting Satyam's fallen star are doing little to proactively flush out the other Rajus in our midst. It is well known who they are. Government files are bursting with complaints against companies underpaying taxes, over-stating profits, bribing officials, siphoning off profits, and manipulating their own stocks. But the system mostly protects them from prosecution.

The hope that India's once relatively honest and efficient corporate sector could make government cleaner and smarter is dying. Instead, the sleaze and sloth of public life is infecting the corporate world. How else could Price Waterhouse, Satyam's auditor, have missed a $1-billion gap in a $2-billion balance sheet? The problem is global, as evidenced by the subprime crisis, which is the love-child of greedy financiers and malleable credit rating agencies.

The watchdogs of capitalism are too busy sniffing around for goodies companies hand them under the table. So instead of the wide diffusion of economic benefits free markets make possible, vested interests are creaming markets, investors and state assets. The problem is worst in mining, real estate, telecom and power, but this is the first time the IT industry suffered from such cronyism.

Clean companies, citizens and civil servants have a vital interest in fighting this, and the Satyam fiasco offers an opportunity to push for action against companies accused of corporate misgovernance and corruption. At the top-most of the list should be an investigation into Satyam's ties with the Maytas realty companies, and the Raju family's financial links to powerful politicians in Andhra Pradesh.

The situation is also a wakeup call for Indian auditors and other watchdogs. It is essential they raise their game to global standards.

Ultimately, the true reflection of India will not lie in how ably Raju, his associates and Price Waterhouse are punished, but in how aggressively the system begins to hunt down others like them.

jehangir s. pocha, editor

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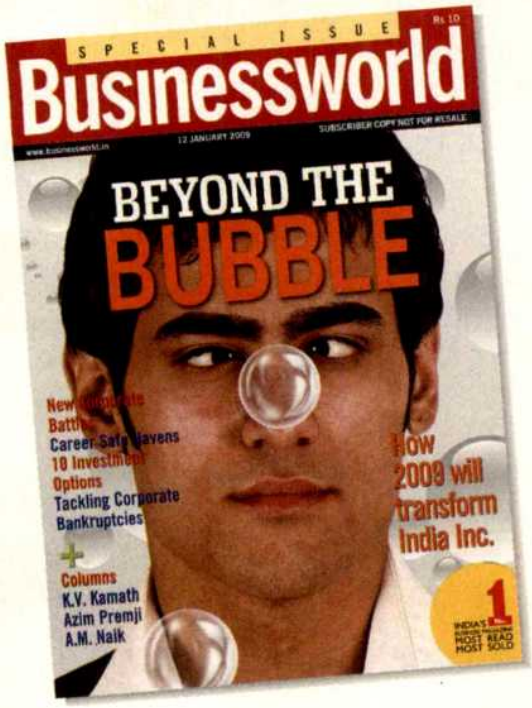

Reforms Required

The Mumbai terrorist attacks has brought to the fore a debate that the politicians and public officials have been evading for decades — push for political and administrative reforms in the country ('Beyond The Bubble', *BW*, 12 January 2009). Although there is nothing wrong with the basic constitution, existing laws need to be amended and new passed to make public officials more accountable for what they are responsible for. The government needs to pass a legislation that will make the jobs of IAS officers target- and performance-based. And everything from their salaries to promotions should be directly linked to it. Non-performance must not be tolerated. It is probably the security of the job that is making them lax towards their duties.

Pranab Gogoi, New Delhi

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Time To Get Serious

The column reflected some of the potential flaws existing in the system and the emergent need to contain it by putting in place an appropriate mechanism ('The Covert Option', *BW*, 12 January 2009). To root out terrorism, a strong political will is needed. Unfortunately, none of our governments — past and present — have demonstrated the ability to contain it. The political class must take a queue from NSG commandos — dedicated and ready to act at short notice. They must now start discharging their duties earnestly with utmost concern for the nation instead of making absurd statements and tall promises that are seldom fulfilled.

Srinivasan Umashankar, Nagpur

Slow Investigations

In the fire and fury of the 26/11 Mumbai terrorist attacks, investigations into the serial bomb blasts in Ahmedabad, Jaipur, Delhi and Guwahati seem to have been shelved or forgotten ('Operation Change', *BW*, 15 December 2008). And it is not just the Centre and state governments, the media has also gone slow in reporting the matter. People have no idea as to how much headway the government has made in terms of getting close to the perpetrators. Will the Ministry of Home Affairs inform the traumatised nation about the progress in the investigation of terror related cases and follow it up with fortnightly reports?

R.J. Khurana, Bhopal

Deserving Candidates

The government's announcement of spending Rs 3 lakh crore in infrastructure development will not only boost India's infrastructure, but will also create employment opportunities ('Unfinished Business', BW, 5 January 2009). I agree with Vinayak Chatterjee's point on experience criteria on pre-qualification of bidders. The capabilities and resources must be considered for awarding works or services to companies.

Sameer Mahindrakar, Bangalore

Corrigendum

'Wary Welcome' (*BW*, 15 December 2008) quoted a source saying that Zegna South Asia had decided to withdraw from India. The company has denied this.

Letters may have been edited for brevity.

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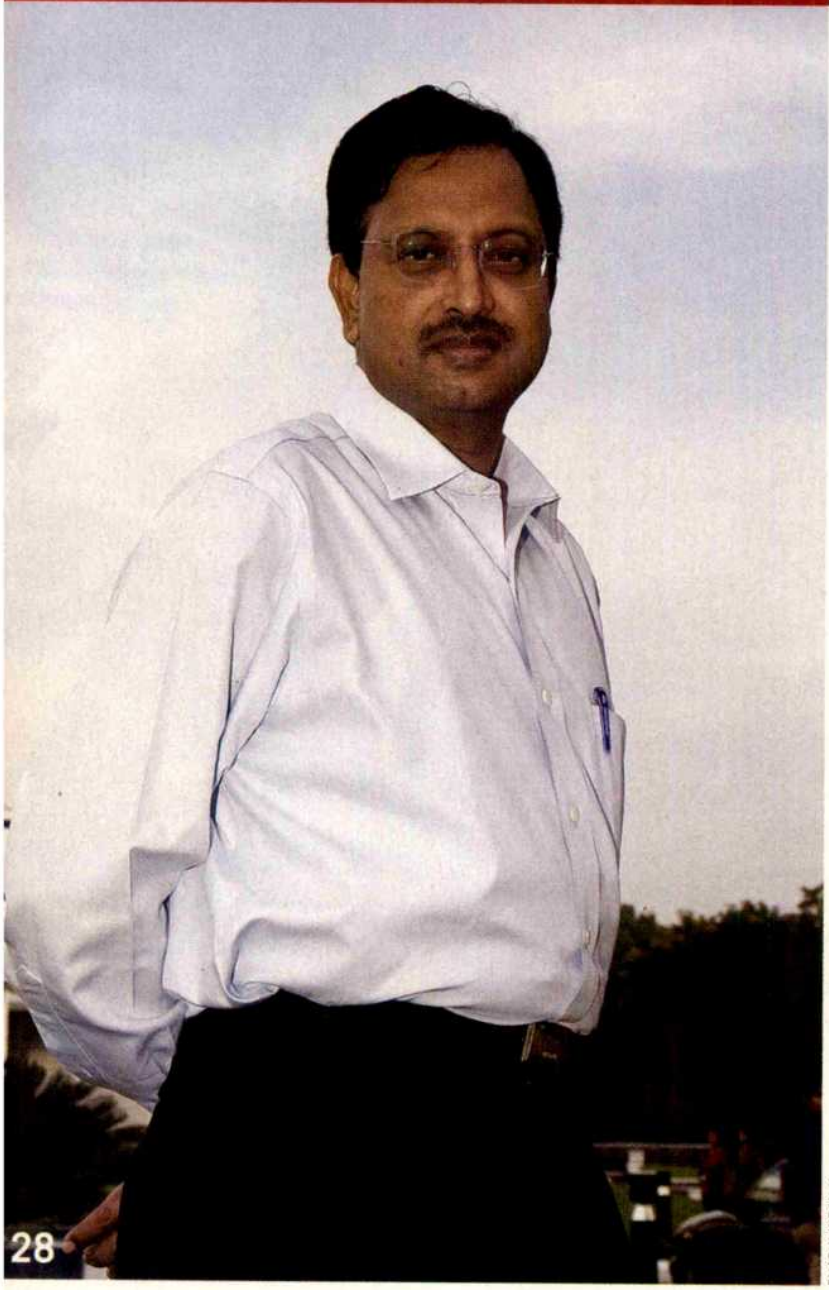
Businessworld 19.01.09



SHASHI KIRAN K

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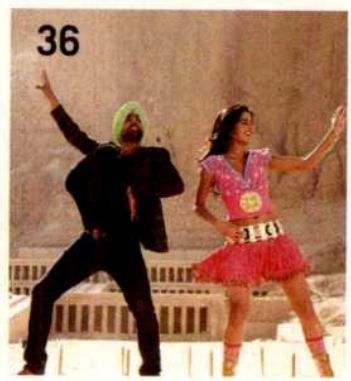

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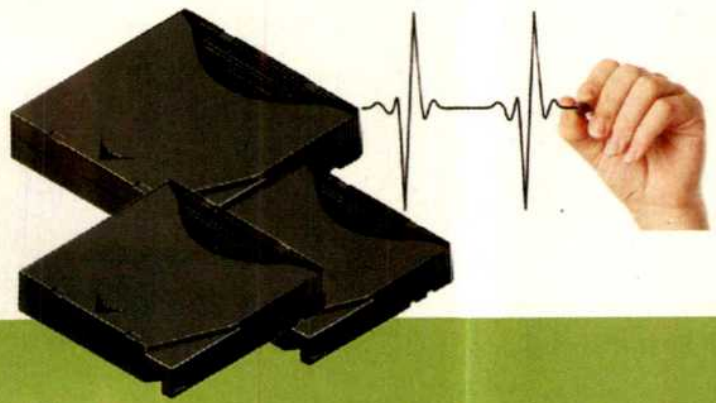

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SENIOR VICE-PRESIDENT AND CEO, EMERGING MARKETS, **PHILIPS HEALTHCARE**

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Read everything you want to know about the Satyam scandal.

Technocool
Tushar Kanwar on Nikon D90 and Phenom watch that also doubles up as a phone.

Total number of pages including cover: 68

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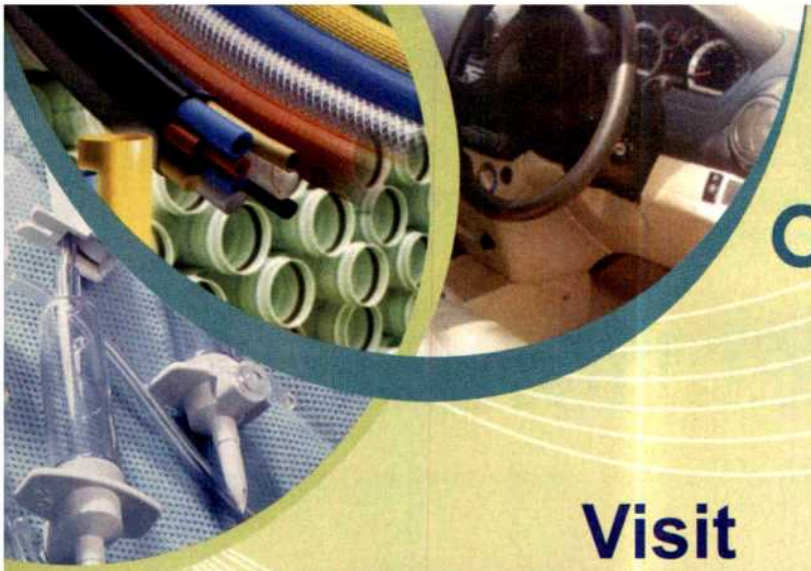

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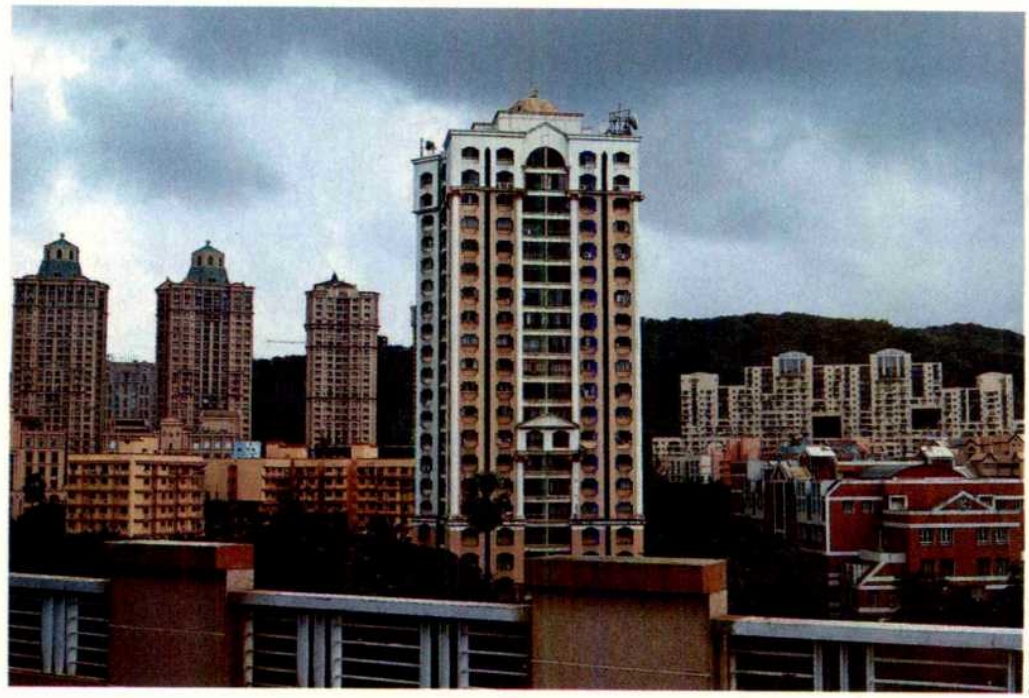
HOUSING

Good Intentions, But...

The proposal to reserve land for the poor might be another mirage



HEIGHT OF IRONY: Hiranandani Gardens at Powai in Mumbai was originally meant to be a mass housing scheme for the poor

THE UNION MINISTRY of Housing has proposed that 20 per cent of land in new housing projects be reserved for the poor. To ensure implementation, Kumari Selja, minister for housing and urban poverty alleviation, is wielding both the carrot and the stick. Builders who construct small units for maids and drivers in their townships would be granted additional development rights. And state governments that don't toe the line may find funds under the Jawaharlal Nehru National Urban Renewal Mission (JNNURM) — a hefty Rs 50,000 crore waiting to be disbursed — drying up.

The minister's objective is laudable, but the fact remains that housing for the poor remains just an election issue in India, and her scheme is likely to come to naught. For instance, Maharashtra was the first to propose 20 per cent reservation in public and private housing projects in its draft housing policy of July 2007. The proposed legislation is yet to see the light of day.

Similarly, builders can be relied upon to cash the sops and then wriggle out of their commitments. Under the now-defunct Urban Land (Ceiling and Regulation) Act 1976, land earmarked for takeover was exempted if builders used it for mass housing. However, builders clubbed several flats internally but executed two or three separate sale deeds to pass muster.

For instance, the development of sprawling Hiranandani Gardens, in Mumbai's suburb of Powai, was initially allowed in the 1970s as a mass housing scheme for the poor. Today it is the most expensive address in the city's central suburbs.

Gurbir Singh

30 billion dollars. The amount to be spent by International Finance Corp. to support the private sector.

QUOTE OF THE WEEK **"A trillion-dollar deficit will be here before we even start the next budget."**

— US President-elect Barack Obama

PHARMACEUTICALS

Taro's Twist

Sun Pharma's quest to acquire Israel's Taro is getting longer

MUMBAI-BASED SUN Pharmaceutical Industries's battle to gain control over Taro Pharmaceutical Industries is dragging on, as the intentions of the Israeli promoters remain unclear.

Even as the Israeli Supreme Court's directive to find an out-of-court settlement ends, going by their last-minute proposal, Taro's promoters, the Levitt family, seem reluctant to renegotiate.

Not only does the price of $15 per share asked by Taro represent an 82 per cent premium over the prevailing price on the Pink Sheets electronic system of $8.21 as on 6 January, but the proposal releases the Levitt family from its contractual obligation to transfer its shares to Sun — the very clause that had brought both parties to the court in the first place.

On its part, Sun had proposed two options: a new merger agreement at $9.5, or a new tender offer at $9. Both were rejected. But Sun's willingness to pay $1.75 extra per share — it had agreed to buy Taro at $7.75 per share in May 2007 — to seal the deal also brings up some new questions.

If as Sun so vehemently argues, there is no evidence of a dramatic improvement in Taro's financials as no audited results have been published in the past three years, why is it so boldly going ahead with a higher offer?

Noemie Bisserbe

NO TRUCE IN SIGHT: The prospects of an out-of-court settlement with between Sun and Taro have slimmed

BLOOMBERG

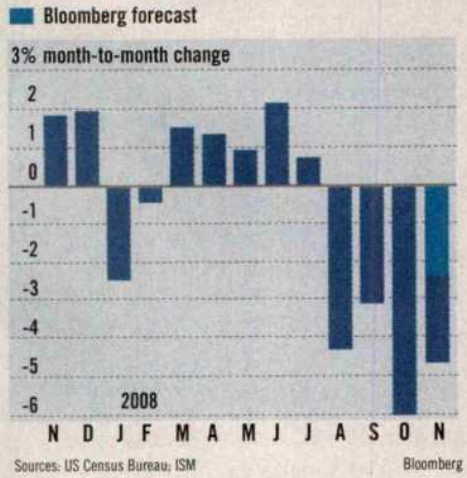
Global NEWS

Even as it is mounting its incessant attack on Gaza, Israel seems to be heading for a diplomatic misadventure. The air and ground attacks — purportedly to stop the rocket firing by Hamas — have left about 600 dead, according to Red Cross. This has further widened Israel's divide with Muslim countries.

FACTORY ORDERS FALL

Factory orders placed in the US dropped twice as much as forecast in November.

US factory orders



Sources: US Census Bureau; ISM

Bloomberg

GEMS & JEWELLERY

DIAMONDS SANS SPARKLE

THE GEMS AND JEWELLERY INDUSTRY'S decision to rescind its self-imposed ban on import of roughs has not served its purpose — generate work for diamond polishing workers. The ban, imposed barely a month ago, was to conserve cash for importers hit by overextended positions. The industry imports about $5 billion of rough diamonds annually.

The ban was harshly criticised, especially in Gujarat, where about 100,000 polishing workers were left unemployed.

Some units have reopened after the ban was revoked, but this has not helped. Workers are paid not on man hours of attendance but on actual volume of work performed. "The global situation has not improved, and the US holiday season retail sales were greatly disappointing," says Vasant Mehta, chairman of The Gem & Jewellery Export Promotion Council (GJEPC). With recession hitting western markets harder, demand for polished diamonds remains abysmal. And so do the workers' future.

Gurbir Singh

EUROPE'S WOES

Since 1 January, Russia has halted gas supplies to Ukraine, through which a fifth of Europe's gas transits. In the picture, a seller chops firewood at a wood market near the Bulgarian capital Sofia on 7 January 2009. Bulgaria's energy ministry says Russian gas supplies are suspended for an indefinite period.

POLICY

Bad Timing

The new integrated energy policy has probably come at the wrong time

THE UNITED PROGRESSIVE Alliance government (UPA) at the Centre appears to be waking up to reality in its final days in office. After three years of debate, the UPA government finally ratified the Integrated Energy Policy two weeks ago.

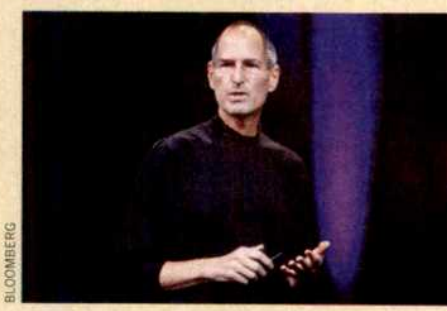
The policy, aimed at meeting India's energy requirement for the next 25 years, calls for augmenting commercial energy sources. It also recommends the setting up of a national energy fund to finance R&D in the sector.

But the moot question is, even if the policy is in the right direction, what is the guarantee that its provisions will be implemented? Especially given that general elections are round the corner, and the fact that energy pricing has always been a politically sensitive subject.

Kandula Subramaniam

AMIT VERMA

CORPORATE



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Clearing the air

STEVE JOBS HAS FINALLY ADMITTED TO HIS mysterious illness. "My doctors think they have found the cause — a hormone imbalance that has been 'robbing' me of the proteins my body needs to be healthy," Jobs said in a letter to the "Apple Community". For the past few months, there have been rumours about the health of the iconic Apple chief executive. Rumours intensified as Apple remained secretive about Jobs's health. Jobs has clarified that he will remain CEO.

Reality Check

Health Minister A. Ramadoss wants to increase spending on the anti-tobacco campaign. He has proposed to increase the Budgetary allocation from Rs 450 crore to Rs 550 crore.

SPORTS

SRK'S CHEERY WALTZ

COST CUTTING IS FOR the dim. For Shah Rukh Khan, earning opportunities never cease. The actor is turning an expense of his Indian Premier League (IPL) franchise, Kolkata Knight Riders (KKR), into a source of revenue.

Instead of parting with about half a crore rupees to hire cheer leaders for IPL's one-and-a-half-months season, he is going to pocket several crores by producing a TV reality show to choose cheerleaders for 2009.

Khan also plans to make money from training and recruitment of players. KKR will be conducting training and selection camps for young talent backed by sponsors starting March 2009. No wonder, KKR was one of only two IPL franchises (the other being Jaipur's Rajasthan Royals) that made a profit in IPL's inaugural year.

Feroz Ahmed

TOP 10 LISTINGS

TOP 10 GRADUATE EMPLOYERS

1	PricewaterhouseCoopers
2	Deloitte
3	KPMG
4	Accenture
5	NHS
6	Civil Service
7	BBC
8	Aldi
9	Teach First
10	Goldman Sachs

Source: The Times, UK

Expression of Interest

National Bank of Agriculture and Rural Development (NABARD) invites Expression of Interest (EOI) from reputed consultancy organisations and research institutes for undertaking a study on "Organised Agri-Food Retailing and Supply Chain Management". The study will be undertaken on all-India basis covering different states and all major agricultural commodities, including fruits and vegetables. The sample for the study should be representative of the various formats and stakeholders (both organized and unorganized) in the value chain so as to reflect the ground realities. The study will be a combination of both literature scanning and field work.

The EOI may be forwarded in two separate sealed covers superscribed "Organised Agri-Food Retailing and Supply Chain Management-Technical Proposal and Financial Proposal" to the Chief General Manager, Department of Economic Analysis and Research, NABARD, 4th Floor, Plot No. C-24, 'C' Block, Bandra-Kurla Complex, Post Box No. 8121, Bandra (East), Mumbai 400 051.

For further details of the Study, please visit the website www.nabard.org

The last date for sending the EOI is **23rd January 2009**

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TRIBHUWAN SHARMA

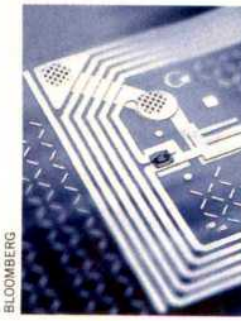
Lankan connection
Bharti Airtel is rolling out its services in Sri Lanka from 12 January. With this, Airtel will become the fifth largest telecom operator in the island country. The Sunil Bharti Mittal-led company had originally planned the launch of Airtel Lanka for December 2008 but delayed it]due to issues of interconnection agreements with Sri Lanka's incumbent operators.

Smooth pay
Credit card network MarsterCard has acquired Dublin-based software provider Orbiscom for about $100 million. The Irish company provides solutions to the global payments industry and Mastercard plans to capitalise on Orbiscom's expertise to enhance its payments processing system.

New model
Mumbai-based Hindustan Unilever has transferred the businesses of its brands Lakme and Lever Ayush to its subsidiary Lakme Lever in a bid to align its business model with the growing beauty and wellness industry in India. "As per the current business model, these (centres) contribute to an insignificant proportion of the company's turnover and profits," HUL said in a statement.

Tower value
Kolkata-based Quippo Telecom Infrastructure (QTIL) has picked up a 49 per cent stake in Wireless Tata Telecom Infrastructure (WTTL), the tower arm of Tata Teleservices (TTSL). Quippo will transfer all its 5,500 towers as well as other telecom assets to WTTL. The deal will give WTTL about 20,000 telecom towers. "The combined entity will be the largest independently managed tower company in India, with an enterprise valuation of Rs 13,000 crore," says Anil Sardana, managing director of TTSL.

AMIT VERMA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New designs
German chip maker Infineon has sought shareholders' approval for its plan to raise €450 million ($611 million) in capital by issuing new shares. Shareholders will vote on the proposal on 12 February. The fund raising plan comes after Infineon helped put together a rescue plan for its memory-making subsidiary Qimonda AG worth $450 million.

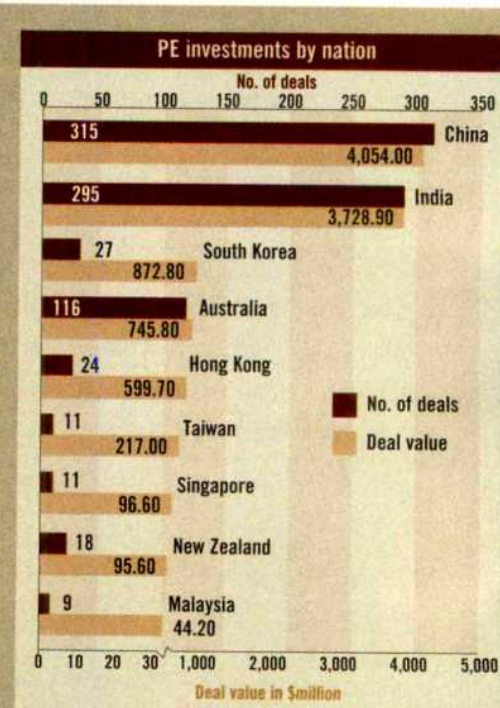
BW-THOMSON REUTERS PE DEAL TRACKER

2008 The Asian PE market saw 864 deals worth $10.52 billion as on 31 December 2008. In 2008, China was the largest market in the region with 315 deals worth $4.05 billion.

Top India deals

TARGET	INVESTOR	NATION	DEAL SIZE ($M)
Nuziveedu Seeds	Blackstone	US	50.00
Deepak Cables (India)	IDFC Private Equity Co.	India	42.12
SunTV Network	Nalanda Capital	Singapore	21.18
IL&FS Securities Services	Croupier Prive Private Equity Partners	US	10.00
Sree Ramcides Chemicals	Draper Fisher Jurvetson ePlanet Ventures	US	5.07
Chakpak.com	Accel India Venture Fund, Canaan Partners	India, US	5.00
Lucid Software	Mercatus Capital	Singapore	NA
MediaE2E	Sequoia Capital	US	NA
IT infrastructure management & outsourcing unit of CMS Computers	Blackstone Group	US	NA

Figures for 30 November-31 December 2008



Figures for 1 January-31 December 2008

A conscious move

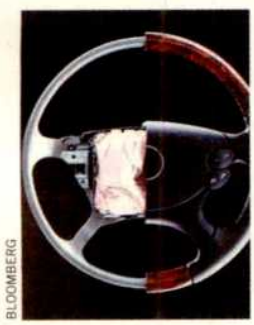
Hyderabad-based IT services company Infotech Enterprises has set up a subsidiary in Japan. The new company is named Infotech Enterprises Japan KK. Infotech operates from 25 global locations, including seven development centres and accommodates the largest operations out of India for engineering services, geographic information systems and IT services.

Ethnic deal

Fabindia Overseas has acquired a 25 per cent share in UK's womenswear retailer East for an undisclosed amount. As per the agreement, the New Delhi-based ethnic wear chain has an option to acquire the balance shares in a phased manner over the next 2-3 years.

Safety measures

Delhi-based auto component maker Anand Automotive Systems has formed a joint venture with Japan's Takata — Corporation to manufacture airbags, seat belts and steering wheels in India. The new company, Takata India, will be majority owned by Takata.



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BLOOMBERG

Fair deal

The State Bank of India (SBI) has acquired 19.7 per cent stake in Orissa-based Mayfair Hotels and Resorts (MHRL) through a private equity deal. "This is an indicator of SBI's confidence in our enterprise and management; nowhere the slowdown has impacted our business," says Dilip Ray, chairman and managing director of MHRL.

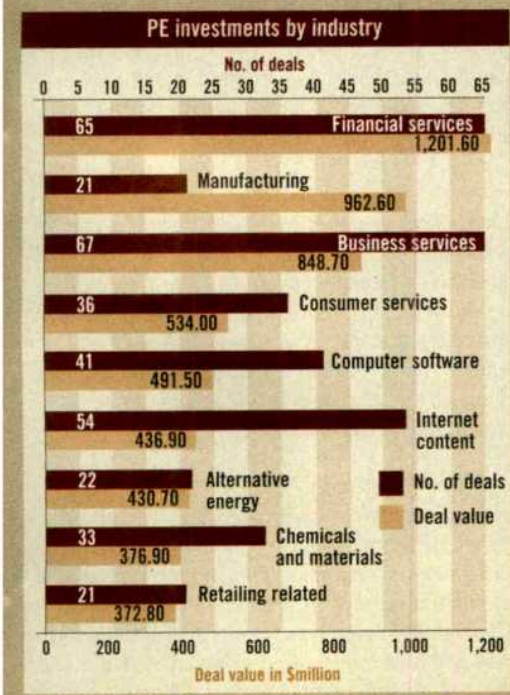
Youthful move

Virgin Mobile has tied up with MySpace, the world's largest social networking site. As per the agreement, MySpace will offer its services on Virgin Mobile's WAP-enabled phones. MySpace, a division of Fox Interactive Media, is a lifestyle portal connecting the worldwide community by integrating Web profiles, instant messaging, blogs, etc.

Banking on technology

IBM Corp. has signed a $5-million information technology services agreement with Kotak Mahindra Bank. As per the agreement, IBM will maintain a 'green data centre' for Kotak Mahindra Bank. The deal will help the Mumbai-based bank save more than $1.2 million in operational efficiency and reduced energy costs over the next five years.

SATHEESH NAIR



Figures for 1 January-31 December 2008

Top Asia deals

TARGET	NATION	INVESTOR	NATION	DEAL SIZE ($M)
PBL Media	Australia	CVC Asia Pacific	Hong Kong	225.00
Hongshi Holdings Group	China	Goldman, Sachs & Co.	US	120.00
Nuziveedu Seeds	India	Blackstone Group	US	50.00
South Beauty Catering Management Group	China	Undisclosed investor	US	43.86
Deepak Cables (India)	India	UTI Venture Funds Management Company	India	42.12
Fujian Yonghui Group	China	HSBC Pte Equity (Asia)	Hong Kong	35.00
SunTV Network	India	Nalanda Capital	Singapore	21.18
Beijing Jingdong Century Trading Co.	China	Undisclosed investor	US	21.00
Industrial and Commercial Bank of China	China	Goldman, Sachs & Co.	US	11.36
IL&FS Securities Services	India	Croupier Prive Private Equity Partners	US	10.00

Figures for 14-31 December 2008

Note: Sum invested is actual money taken down or disbursed to portfolio companies. PE deals are classified as investments where the investor is a PE firm. The above tables do not include investments made by angel investors, hedge funds, trusts and corporate investors. Such investors are taken into account only when they have invested alongside PE firms.

Log on to www.businessworld.in for the complete list

Quick Take

Should foreign airlines be allowed to buy controlling stakes in domestic carriers?

We asked... Atul Asthana, independent consultant; Amit Jain, director, Goldstone Imaging; Amitabh Khosla, country director, International Air Transport Association (IATA); Kapil Krishan, chief financial officer, India Infoline; Pari Natarajan, chief executive officer, Zinnov Consulting; Amrit Pandurangi, leader, transportation and infrastructure practice, PricewaterhouseCoopers; Richa Goyal Sikri, director, group business development, STIC Travel Group; Naresh Varshney, national head, mutual munds, Unicon Financial Intermediaries; Neelabh, orthopaedic doctor, Kalra Hospital

"Yes. Greater competition will be healthy for the industry. It will improve service standards."

Kapil Krishan, chief financial officer, India Infoline

"The industry (aviation) is sick. Commercial freedom is needed to bring it back to good health."

Amitabh Khosla, country director, IATA

"There are security issues that the government needs to take into account while taking a decision."

Richa Goyal Sikri, director, group business development, STIC Travel

Yes 67%

YES BECAUSE: Airlines is an international business by nature. The coming of foreign carriers whether through mergers or through new businesses will mean better valuations for Indian carriers and also better services for customers. Most domestic airline firms are in the red and their finances are in a mess. In the current scenario of global liquidity crisis and economic meltdown, finances are hard to come by. If a suitable source for finances is not provided to local carriers then there is every probability of them going bankrupt. Foreign airlines should be permitted to acquire majority stakes, as they perceive India as a high growth destination. The aviation industry is incurring huge losses and commercial freedom is one of the medications needed to bring it back to good health.

No 11%

NO BECAUSE: Allowing foreign airlines to buy controlling stakes in domestic carriers can pose a threat to national security. Air travel and related national security issues should be kept in mind while taking any such step. The government's current position — foreign companies other than airlines are allowed to hold up to 49 per cent stake in local carriers — is appropriate. Local carriers — some of them have gone international also — have shown that there is no dearth of local expertise to create quality products and services to compete globally. If need be, the government should try and bail them out rather than have them owned by foreign carriers. The government should facilitate consolidation within the country and restrict strategic investment by international carries.

Maybe 22%

MAYBE BECAUSE: The aviation sector is going through a rough patch and the current slowdown has taken a toll on its profitability. Companies are desperately looking to rationalise cost and improve efficiency. Entry of international players may bring international management practices to Indian carriers. Although FDI norms for foreign carriers should be eased, their role on the boards and in the management should be limited. Larger presence of foreign airlines will expose local airlines to better customer services and specialised security measures. This will lead to increased safety in the skies and will also force domestic carriers to improve their services. Active entry of international airline majors will bring in further competition in the sector, which will benefit the customer in the long run.

Deep-rooted Poverty

by omkar goswami

Sundarban is an ethereally beautiful place. It also suffers from abject poverty and poor governance

MY WIFE RADHIKA AND I WENT WITH SOME friends to Sundarban for the year-end break. We drove 85 km from the city that I will always write as Calcutta to Gadkhali, a hamlet near a small town called Basanti, where we got on to a steamer. An hour-and-a-half later, we disembarked at a jetty on a 16-km long island called Bali, to arrive at a wonderful eco-friendly resort — if five thatched cottages can be called a resort — run by Help Tourism, a group of environmentally-conscious Bengalis.

Much has been written and read about Sundarban, especially after Amitav Ghosh's excellent book, *The Hungry Tide*. All I can write is that it is an incredibly wondrous and beautiful place — and certainly one of its kind in the world. None of us saw the famous Royal Bengal tiger, creatures that eat fish, drink saline water, swim across various streams to get a meal or two, and every now and then kill some hapless honey gatherers as they encroach upon the reserve forests in search of precious nectar. It didn't matter that the big cat remained elusive. Going up and down the estuaries, hugging close to mangrove banks, watching various types of birds, spotted deer, the odd crocodile, being awestruck at the vast horizon-less width of the mohonas where many rivers meet and then go their own ways, being on the river in the misty early morning sunrise and the beautiful sunsets are experiences to cherish forever.

The tragedy amidst such beauty is the abject poverty of the people who reside there. The island of Bali is split into two sub-administrative entities, Bali I and Bali II. Both belong to the Gosaba block which, in turn, is one of the 27 blocks that constitute the district of South 24 Parganas. The 2001 Census of India puts the rural population of Gosaba at 222,822 people, comprising 43,971 households. Today, I would reckon that the population has risen to some 250,000 souls. According to the locals, some 40,000 people live on the island of Bali.

Now for some terrible statistics of poverty, government apathy and neglect.

In 2001, only 0.9 per cent of the households of the entire rural Gosaba block had electricity connections. Keep in mind that having an electricity connection doesn't mean that you actually get electricity. Even so, contrast the fate of Gosaba with the rural all-India average of 44.5 per cent. Nothing has changed for the better between 2001 and 2008. Bali has absolutely no electricity. The resort we were in ran on a diesel generator that was powered for a couple of hours in the morning, and between 6 pm and 10.30 pm in the evening. We were the lucky ones. Not a single homestead in the village has electricity. A few better off pucca homes have the odd solar cells to light up a room or two, but these are very rare. For almost everyone in the island, light comes from little *battis* — disused medicine bottles filled with kerosene, with the wick being pulled out of a perforated cap.

But that's just the beginning. In 2001, only 3.1 per cent of the households of Gosaba lived in *pucca* homes, versus 40.4 per cent for rural India as a whole. In other words, almost 97 per cent of the households lived in houses whose walls were mud-lapped over a structure of straw and bamboo; and whose roofs were made of poor thatch, which must be replaced after every monsoon. Idyllic to the tourist, and presents great photo options for capturing thatched huts, dung cake patting women, plantain trees, water lilies sprouting from hyacinth infested ponds and minuscule patches of green with winter paddy shoots — all in one wide-framed shot. Dig just a bit deeper and what you see is the face of grinding poverty.

Here's some more, 99.9 per cent of the Gosaba households use firewood and dung cake for cooking. LPG is available only to an exalted 0.1 per cent, compared to 5.8 per cent of households in rural India as a whole. Over 99 per cent of people, male and female, bathe in ponds — the same stale ponds from where they fetch their water to drink.

If you were to construct a composite index of household assets and amenities, Gosaba ranks among the bottom 13 per cent of all the blocks and tehsils of rural India. But, guess what? It is not so poorly off compared to its three neighbouring blocks. Kultali (population: 188,000) ranks in the bottom 4 per cent; Basanti (population: 279,000) is in the bottom 3 per cent; and Canning II (population: 196,000) is in the bottom 1.5 per cent. Hail the Left Front, then, for all the wonderful things it has done for rural Bengal!

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Bailout Backlash

by Sreevalsan Menon

Excessive spending on bailouts can backfire for the US

"NEW YORK DOESN'T NEED A HANDOUT, WE NEED A handback." That was the reaction of Governor David Paterson, whose state will face a $47-billion budget deficit by 2012 on account of the US stimulus package. Though India does not have much to get back or give back, its corporates believe if the US does not get it right this time with President-elect Barack Obama's proposed $1-trillion stimulus plan, it would inadvertently create far more difficulties for everyone else around the world.

Corporate India has reason to worry. Though the $700-billion Wall Street rescue plan by President George W. Bush curbed the credit crunch to some extent, the US markets are still reeling under pressure and unemployment is growing at 9 per cent, demanding further fiscal measures to boost the overall demand. However, with the Obama package, the US also faces an unmatched prospect of "trillion-dollar deficits for years to come", as Obama said, leaving generations to pay off a much-stretched national debt, contrary to the Democrat's pledged move towards greater fiscal discipline.

Many in the West think more money is being spent to solve an issue created by excess spending. And the worst move was the bailout of the failed institutions on Wall Street using tax payers' money. Dinesh Thakkar, chairman and managing director of Angel Broking, is worried that though this economic crisis has clearly emanated from excesses of the past few years, it now holds grave portents for the world.

D. Muthukumaran, head of corporate finance at Aditya Birla Group, feels the criticism of the package is understandable. "Failure in this could be a double whammy." Being very critical is also its biggest weakness as the plan is highly vulnerable to half-baked programmes. "There is a fear that excess spending can be counterproductive, just as it happened in the previous bubble," he says.

Drawing a parallel to a drunkard with a damaged liver, Sudhakar Ram, chairman and group CEO of Mastek, says the bailout is like giving the drunkard a spare liver, rather than forcing him to stop drinking. "In my view, the bailout of the banks in the US will have a negative effect across the globe and not just within the US," he says.

A clear example of the negative impact is the recent bailout of GMAC with an injection of more than $5 billion. GMAC has promptly diverted these funds by giving people, even with lower credit scores, loans at zero interest, just to move GM cars. A. Mahendran, managing direc-

HARD CHOICE: Obama's (third from left) $1-trillion stimulus plan can have repercussions all over the world

BLOOMBERG

tor of Godrej Sara Lee, says, "None of these touches the root cause of issues such as subprime crisis or collapse of Wall Street giants. It's a reaction to get out of a crisis and in that sense, it's a frivolous attempt."

Die-hard capitalists dissent saying more than Milton Friedman's free market monetarism, it is Keynes' fiscal prescriptions that are relevant today as the private sector, which employs every second American, is in a state of shock. "As the liquidity support and rate cuts are proving to be ineffective, only a fiscal stimulus can provide job security, which in turn will push demand and bring the economy back on track," argues Asif Adil, managing director of Diageo India.

Institutions, which are important for the financial system, cannot be allowed to collapse. Sudip Bandyopadhyay, CEO of Reliance Money, feels the US government should also take necessary action to save the local automobile industry. "This is critical for preventing the crisis from spreading and affecting other segments of the economy," he says. Concurring with him, Taurus Mutual Fund's CEO Waqar Naqvi says the US Fed, however, should be careful in valuing the securities so as not to fall into a debt trap later.

The Obama package provides for 40 per cent benefits through tax breaks, mostly to corporates, though these are not easily measurable. However, boosting investments in public infrastructure seems more tangible. The optimal link between these stimulus spending and a demand revival must be honed. Subash Menon, founder chairman, managing director and CEO of Subex says, "The structure needs to be thought out to ensure that the returns are commensurate with the investment. While the original plan to buy toxic assets did not make much sense, consumption needs to be given an enhancement."

The key, however, is the course correction — and even reverse at an appropriate time — or else there is a danger of repeating economic grief. "Prices across asset classes have deflated and let us hope that the stimulus packages do not cause its undesirable recurrence to dangerous levels," says Muthukumaran.

Critics say the US national debt expansion, as a result of the fiscal measures, can come back to bite every nation, including India, since the decoupling theory has failed completely. "The trillion-dollar expansion in the US debt may boost liquidity, but with so much money being printed across the world there is also the risk of inflation in the long term," warns Muthukumaran.

Given the level of integration and dissemination of information, there is lot of interest in India about all that is happening in the US and China. Besides textiles, IT and ITeS, many sectors that look up to the US markets for businesses can get affected. The Aditya Birla Group, with its companies Novelis doing business in the US and Hindalco exporting metals to China, believes its fortunes are linked to the recovery in these countries. So, growth drivers and fiscal deficit must be balanced.

However, there are hopefuls too. Piruj Khambatta, chairman and managing director of Rasna, says that packaged foods are expected to do much more business since people eat out less and prefer cheaper products among packed foods.

India also needs to worry about further flight of foreign capital as it did last year with foreign institutional investors (FIIs) deserting the equity markets. Hence, Reliance Money's Bandyopadhyay says ample liquidity and investible surplus in the US markets is critical for US investors to return and invest in Indian markets. On its own, despite huge deficit restraints, India has announced a slew of measures, mostly fiscal in nature, to improve growth besides the credit. A high domestic savings rate and a favourable interest rate regime should work in India's favour. Subex's Menon says India is not insulated and investing in the infrastructure looks like the best option.

Sanjay Sakhuja, managing director and CEO-designate, Ambit Corporate Finance, sums it up by saying, "Decision makers around the world need to psychologically move on and recognise that this is strictly a 'one-time' measure."

HEAVY LOAD

The cost of stimulus packages to US taxpayers has crossed $1.8 trillion

Bailout type	Cost to taxpayers
Proposed Treasury Department legislation	$700 bn+
Federal Housing Administration housing rescue bill	$300 bn
Fannie Mae and Freddie Mac nationalisation	$200 bn
Loans to banks via Fed's Term Auction Facility	$200 bn+
Purchases of mortgage securities by Fannie Mae and Freddie Mac	$144 bn
JPMorgan Chase repayments	$87 bn
AIG loan and nationalisation	$85 bn
Loans from Depression-era Exchange Stabilization Fund	$50 bn
Bear Stearns financing	$29 bn
Mortgage community grants	$4 bn
Total	**$1.8 trillion+**

Bn: billion

Source: Reuters

With inputs from Venkatesh Ganesh

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AP

THE FOREIGN HAND

Nearly a dozen foreign airlines have the financial muscle to pick up a stake in an Indian airline

	Cash balance*	Financial year ending
Singapore Airlines	3.55	31 Mar '08
Japan Airlines	2.70	31 Mar '08
Ryanair Holdings	2.60	31 Mar '08
Qantas Airways	2.50	30 June '08
Iberia	2.50	31 Dec '07
Deutsche Lufthansa	2.20	31 Dec '07
Malaysian Airline	1.40	31 Dec '07
EasyJet	1.10	30 Sep '08
Hainan Airlines	1.10	31 Dec '07
British Airways	1.10	31 Mar '08

*Figures in $billion

Source: Industry

Waiting In The Wings

by Muthukumar K.

Cash-rich foreign airlines can help India's struggling carriers

THE GOVERNMENT PLANS TO OFFER 20-25 PER CENT equity in domestic carriers to foreign airlines. It seems logical, given the cash crunch faced by the former in recent times. "At this juncture cash is still king," says David Jones, partner with Grant Thornton. "Whoever has the money to carry on with the price war will survive." SpiceJet managed to bag an $80-million deal with private equity fund WL Ross five months ago, but others such as Kingfisher, Jet Airways and GoAir are still looking around.

Contrary to popular belief, there is still cash in the foreign market. Airlines such as Singapore Airlines, British Airways, Ryanair, Malaysian Airline and Lufthansa, have over $1 billion in cash each on their books (see 'The Foreign Hand'). And most of them have reported profits in the past four quarters. But, will they loosen their purse strings to get into the Indian market?

So far, no foreign airline has been allowed to invest in this country. So synergising global operations with India's isn't going to be easy. And with poor airport infrastructure to support the lowcost airline model, players such as US-based Southwest Airlines might not be interested. But while airlines such as British Airways are looking at Europe for consolidating operations, some could look at the government's move as a foot-in-the-door option (by treating it as a pure financial investment) before aviation policies allow them to go the whole hog.

"There is scope for synergy and economic efficiency among trans-Asian operations," says Ashu Dutt, managing director of Asia infrastructure practice at North Bridge Capital. "The spread of Malaysia and Thailand is similar to that of India." This implies using similar aircraft for similar distances. Similar ethnic customer profiles and connectivity to feeder routes are other attractions. Singapore Airlines, which saw its earlier bid to enter India thwarted by the government, is now surprisingly disinterested. "We have no plans at this time for any investments in Indian carriers," says Stephen Forshaw, vice-president of public affairs at Singapore Airlines. But M. Thiagarajan, managing director of Paramount Airways, is keen: "We are open to investments from foreign airlines." Kingfisher and Jet Airways did not respond to *BW*'s emails.

While the net worth of Kingfisher and SpiceJet has seen massive erosion, Jet's is just Rs 3,000 crore. And with market capitalisation of Jet, Kingfisher and SpiceJet quoting at about a third of their sales, there is room for bargain. Jet Airways's Rs 1,761-crore market capitalisation is only 16 per cent of its annual sales. For Kingfisher and SpiceJet, the numbers are 29 per cent and 26 per cent, respectively. There are also huge debts in their books and valuation is likely to be calculated differently in India, say experts.

"Existing route licences as well as parking and landing rights are also important valuation drivers", says Dutt. Ownership of existing licences could give a head start to foreign players interested in starting operations in India.

So, is anybody interested?

NEW FLIGHT PATH: British Airways is reportedly in talks with Indian lowcost carrier GoAir

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Culture Connection

by Vishal Krishna

Discounting based on festivals is still evolving in the country

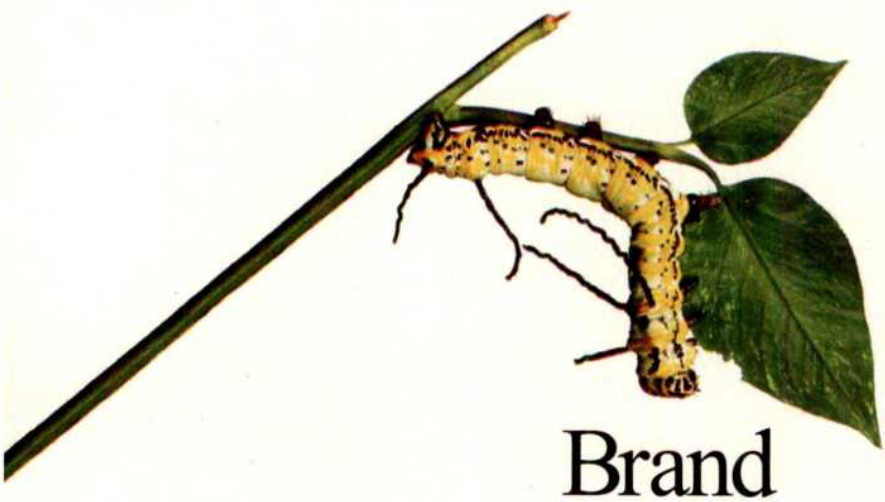
THE NEW YEAR SEASON IS THE TIME WHEN consumers in the West go on a shopping spree. It is also that time of the year when retailers use deep discounting and product bundling strategies to push sales up further. But 'recession' has pooped the party for consumers and retailers alike. Retail chains have seen a dip in sales even as year-end discounts on some items were as high as 80 per cent. Only Wal-Mart registered a rise in sales this season — just 3 per cent — that too because 35 per cent of its sales come from private labels.

"Deep discounting works when the retailer and the manufacturer work together and offer discounts. This is a common phenomenon in the West and Indian retailing is not there yet because of cultural diversity," says Ajay D'Souza, head of Crisil Research.

Indian retailers have their big show during the months of October and November or what is known as the Diwali season. But this time around, the revenue-churning festival passed off quietly making many retailers pin their hopes on January discounts. Kishore Biyani's Pantaloon-owned Big Bazaar had its "Great Indian Shopping Festival", which not only offered discounting, but in fact bundled innovative product promotions.

"This was the first time that we had all formats, Central Mall to Pantaloon Lifestyle, come together on promotions," says Rajan Malhotra, president of strategy and convergence at Big Bazaar in Mumbai. He says, this shopping festival is expected to earn more than Rs 600 crore for the group. But Big Bazaar's festival is an exception rather than a trend in India.

Ambeek Khemka, president of Vishal Retail in Delhi — the only other profitable chain in the country — says, "Indian discount shopping is still fragmented because of diverse culture. In the West, retailers treat the entire community of shoppers as one during Christmas." He says



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the promotions and offers could be bigger and better, if buying happened at a large scale at any one time during the year. But analysts say Indian shoppers spread their purchases through the year, as festivals span the entire year.

And it is not just about timing. "If you look at retail discounting in India, it differs by geography," says Vishal Retail's Khemka. He adds that Indian retail chains could make different discounting plans in different regions based on their specific festivals.

For instance, some retailers *BW* spoke to agree that Christmas sales in Kerala and Goa could go higher with discounts, thanks to the presence of a large Christian population in those states.

However, planning of sales based on geography and festivals is still evolving in India. Eventually, discounting is related to inventory management and the revenue sharing agreements that the retailers strike with the original equipment manufacturers to keep products rolling on a faster rate.

"Such supply chain management is still absent here," says Pinakiranjan Mishra, partner for retail & consumer product service at Ernst & Young in Mumbai. "But Big Bazaar, with 25 per cent of its sales coming from private labels has been able to give deep discounts on various products."

A private label allows a retailer to make at least 60 per cent of the cost of the product sold; the rest can be passed off to manufacturers and transporters.

All said, the art of discounting is in a nascent stage, and, unlike the West, Indian retailers and manufacturers are yet to work out their discount calendar based on culture.

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HEMANT MISHRA

GREAT EXPECTATIONS: Big Bazaar's 'Great Indian Shopping Festival' is expected to generate Rs 600 crore

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A Testing Year For China

by bill emmott

AT THE BEGINNING OF EVERY YEAR, NEWSPAPERS and magazines all over the world tend to write round-ups of what they think will be the most important events and issues of the coming year. As 2008 began, one name that appeared on virtually all such lists was China. The holding of the summer Olympic Games in Beijing, it was said, made 2008 an especially important year for that country.

That was no doubt true. The Olympics were an important symbol of China's modernisation and of its new economic power, as well as providing a wonderful source of national unity. Yet I wonder whether, in retrospect, historians will really judge 2008 to have been a major landmark in China's development. For I suspect that 2008 may well turn out to be overshadowed by 2009.

The Beijing Olympics could not tell of the future: whether China's wealth is sustainable

In truth, while the Olympics were a big success for the Chinese organisers, the story that they told the world was about the past, about what wealth and organisational ability China had accrued. The story the Games could not tell is the story of the future: whether China's new wealth is sustainable, and whether the efficiency of the Chinese government is temporary or permanent. For that story, 2009 promises to be a far more crucial year.

It will be more crucial, first and foremost, because any political and economic system is tested much more rigorously during bad economic times than good ones. In 2007, the Chinese GDP grew by 11.9 per cent, the third year in succession in which growth had exceeded 10 per cent. Last year, growth slowed to about 9 per cent overall, but that annual figure disguises a big difference between the first half of the year, when growth was strong, and the second half, when it was much weaker. Especially in southern China, millions of migrant workers have lost their jobs as factories making cheap exports suffered from the global recession. All across China the construction industry, which employs many millions, has had a bad time as the real estate market began a sharp decline just before the summer.

The last time that China had a big slowdown in growth was in 1997-98, when the East Asian financial crisis coincided with the Chinese government's efforts to bring inflation under control. On that occasion, the slowdown proved shortlived and did not provoke much social unrest. The previous slowdown was different, however: in 1988-89 high inflation and a slumping economy brought millions of Chinese protestors on to the streets of more than 300 cities. The protests culminated in the killing by Chinese troops of an unknown number of demonstrators in the streets surrounding Tiananmen Square in Beijing. 4 June this year will mark the 20th anniversary of that killing.

This is not, however, the only awkward anniversary this year. There will also, on 10 March, be the 50th anniversary of the uprising that took place in Tibet in 1959 against Chinese occupation — a date that launched a new set of anti-Chinese riots last year. And 25 April will be the 10th anniversary of the day when 10,000 supporters of the Falun Gong religious cult shocked the Chinese leaders by staging a demonstration right outside the leadership's own compound, with 20 July the anniversary of the resulting crackdown on the cult. Now, a new movement for democratisation of China is gathering attention. It is called "Charter 08", in a conscious echo of the "Charter 77" movement for human rights and democratisation that was founded in Czechoslovakia when that country was under Soviet control. Charter 08 has been signed by more than 300 Chinese intellectuals and claims the support of about 7,000 people.

The man said to have organised Charter 08 has already been arrested. It would be easy to arrest all the other 300 brave signatories too, if necessary. Such a repression would damage China's international image, but if the Communist Party thought it necessary for survival then it wouldn't care about what the world thinks. Yet the real danger from a movement such as Charter 08 would come if it came to be supported openly by masses of ordinary workers.

That is what happened in 1989, when protests that originated in universities spread to workers too, as anger grew over the economic slump. The biggest worry for the Chinese Communist Party in 2009 is that this might happen again. The World Bank has forecast Chinese growth this year of 7.5 per cent; the head of the IMF, Dominique Strauss-Kahn, has speculated about figures as low as 5-6 per cent, which in China would bring about a dangerous rise in unemployment.

This is going to be a tough year for many countries. But it will be especially testing for China.

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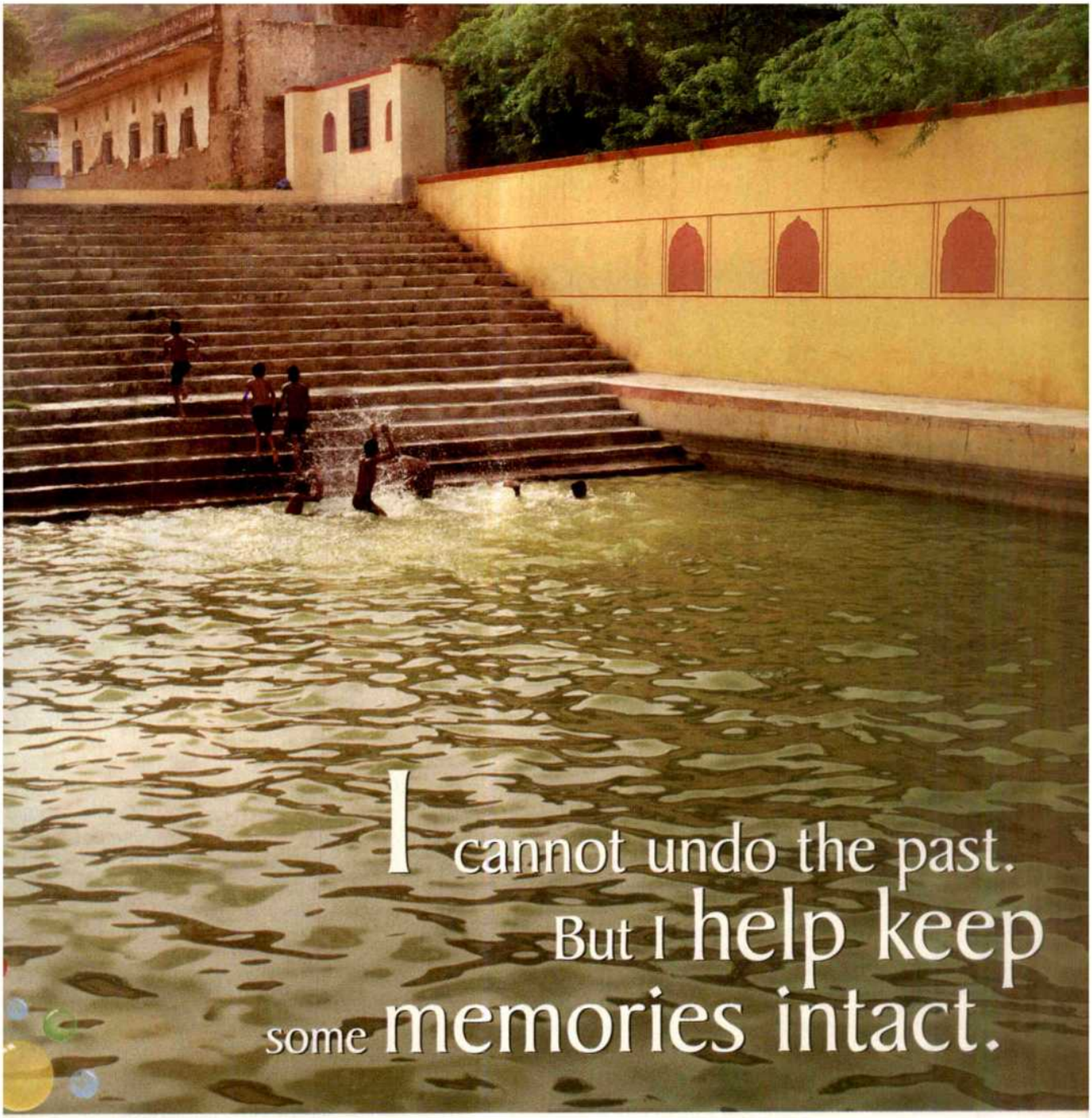

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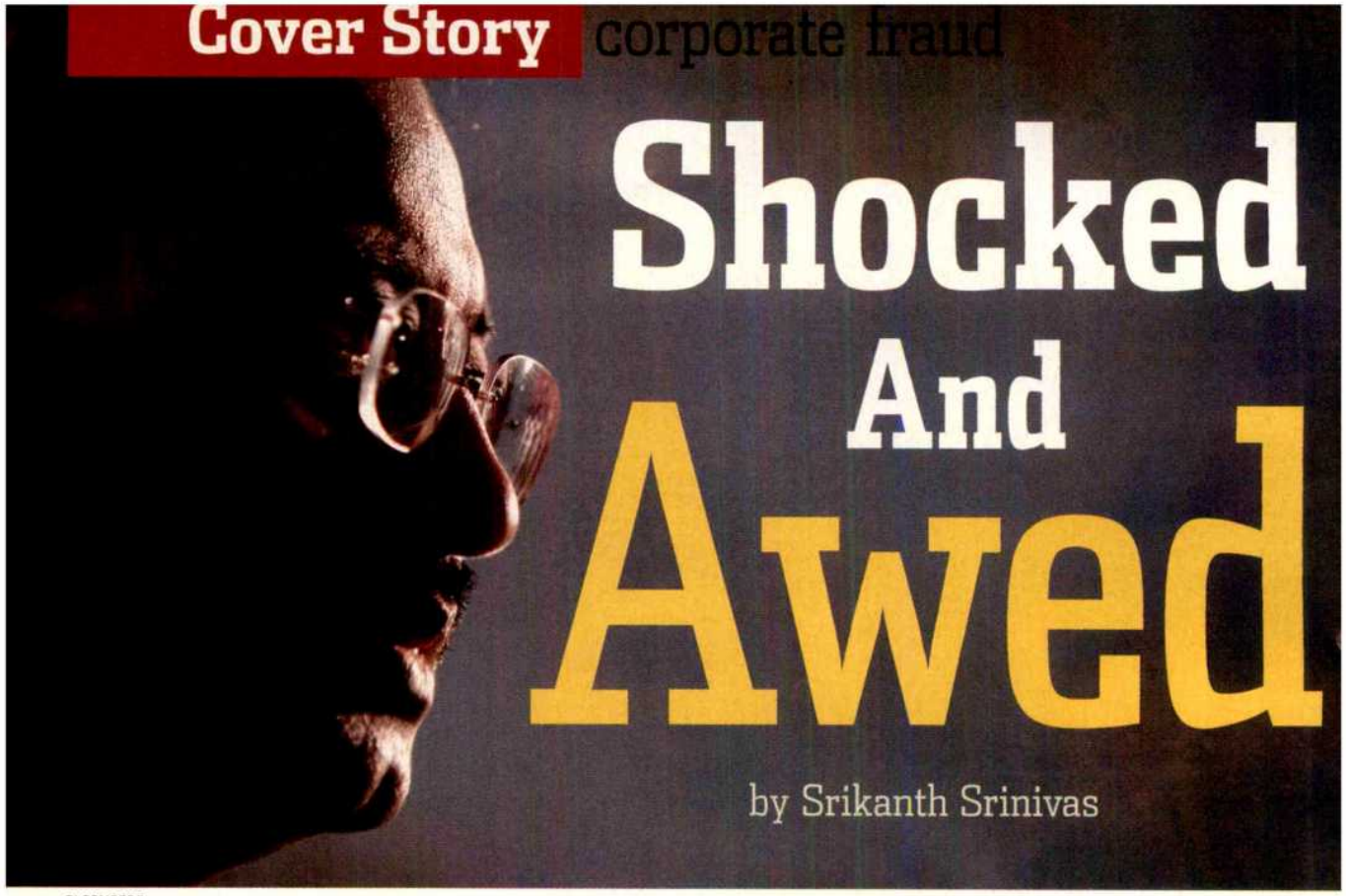
Shocked And Awed

by Srikanth Srinivas



BLOOMBERG

DISHONOURABLE DISCHARGE: Satyam's founder-chairman B. Ramalinga Raju's claim that he had a tiger by the tail may ring hollow to some

IN 1998, Arthur Levitt, then chairman of the US Securities and Exchange Commission (SEC), made a prescient observation: "Auditors and analysts are participants in a game of nods and winks." A year or so later, the stories of accounting fraud at Enron, WorldCom, Tyco and Global Crossing dominated newspaper headlines in the US.

Looking at the developments within our own shores, the unfolding story about cooking the books at Satyam Computer Services, until now a much-touted corporate success story, suggests that capitalism in India, even if led by entrepreneurial firms like Satyam, is no less vulnerable to corporate fraud, deception and deceit. Ask any veteran in the financial markets, and he will tell you that it has been going on for a long time.

Warning signs had already begun to emerge in the middle of last year. "Creative accounting threatens to rear its ugly head" was the title of a report by Mumbai-based analysts at Clear Capital, a subsidiary of the Noble Group, a global securities research firm. In their analysis of the financials of all companies in the Bombay Stock Exchange's BSE-500 index, the analysts said at least 60 companies were indulging in revenue manipulation, mostly by recording revenues ahead of time, and booking fictitious sales.

Going a step further, the report identified cash manipulation as another way: it suggested that "at least 15 companies have disbursed the bulk of their loans and advances to companies in which directors have an interest". Finally, the report compared the total of unaudited quarterly revenues and profits of FY08 with audited annual figures, and found significant deviations in about 100 companies.

Like the Red Queen in *Alice in Wonderland*, everybody is screaming "Off with his head!" when talking about B. Ramalinga Raju, chairman and chief executive officer (CEO of Satyam), or when referring to the auditors, Price Waterhouse (part of PricewaterhouseCoopers International).

Corporate India is shocked to find that one of its hitherto brightest stars was capable of such deceit. Other reactions reflected awe at the scale of the deceit: a story of overstated earnings that goes back several years. Anand Mahindra, vice-chairman of Mahindra & Mahindra in Mumbai, expressed considerable ire at the development. Infosys Technologies' Non-Executive Chairman and Chief Mentor Narayan Murthy called Satyam "tainted".

Causes And Consequences

Despite Raju's confessional letter to his board, the motivations for his actions — beginning with the aborted attempt to merge Maytas Infrastructure and Maytas properties into Satyam — remain shrouded in fog. Many say

The Satyam saga raises serious questions about the key parts of India's financial ecosystem

that this is where his problems began.

From information currently available, it appears Raju, who hails from a traditional landowning clan, became infatuated with the idea of cashing in on India's booming realty market. Using his closeness to two Andhra Pradesh (AP) chief ministers, N. Chandrababu Naidu and current incumbent Y.S. Rajasekhara Reddy, he acquired large tracts of land through his family-owned property firm, Maytas Properties, and the publicly listed Maytas Infrastructure. To raise the cash to pay for the land, Raju used his stake in Satyam as collateral. It is said he also gave some powerful AP politicians stakes in both Maytas companies. Maytas Infrastructure raised eyebrows when it bid for the Hyderabad Metro rail project, and offered to put down cash for the project instead of borrowing as other competing bidders did.

Things began to fall apart for Raju when the realty and stockmarkets began falling late last year. Creditors began to call in their loans as the Satyam stock they held as collateral was falling. A politician with a stake in Maytas Infrastructure (and elections to fight soon) is also said to have demanded Raju make up for the fall in the value of his equity with cash.

As Raju juggled his stock and assets to do this, he came up with a last-ditch plan. With Satyam short of about Rs 6,500-7,000 crore in cash, he tried to get the company to purchase the two Maytas companies for that amount. Satyam would not really have had to pay out the full amount for the Maytas purchases as Raju and his family would not take the money. Therefore, Satyam would get Rs 6000 crore or so in Maytas assets for 'free', and its books would be balanced.

Raju's 7 January resignation letter claims that he entered into this manipulation of the books not for personal benefit but to ensure that Satyam Computers would not be eaten up by the competition through a takeover or merger. He wanted to make it too big to acquire, and thus the manipulation of earnings statements.

Raju's hand seems to have been forced after DSP Merrill Lynch, a Mumbai-based investment bank whom Raju had asked to look into the possibility of a merger or buyout, walked away from the deal after an examination of Satyam's books. It appears that Merrill Lynch discovered that the books had been cooked. For Raju, the problem could no longer be ignored, so he came clean.

More Than Arms-Length

Others in the information technology (IT) industry are swiftly distancing themselves from Satyam. "What has been revealed by Satyam is deplorable and needs to be condemned," says Suresh Senapathy, chief financial officer at Wipro in Bangalore. "But what needs to be understood is that this is an isolated aberration of one company and a single individual, and should not be taken as a commentary on the industry the company is a member of or the country of its origin and operations."

But the bigger question — and one to be addressed more urgently — is: do we have the kind of business environment and business culture that actually promotes good corporate governance and demonstrates it? When all the blame has been parcelled out, the institutions that are responsible for the integrity of the system and the reliability of financial information — the auditing profession, the regulators and stock exchanges, and credit-rating agencies — will all have to go through a rigorous self-examination.

Media reports — and the media have been as gullible as anyone else in this saga — showed the broking community also distancing itself from one of its past favourites. If the media con-

EXECUTIVE SUMMARY

- Satyam's story suggests that capitalism in India is no less vulnerable to corporate fraud, deception and deceit
- Institutions responsible for the integrity of the system — audit firms, regulators, stock exchanges and credit-rating agencies — will have to go through rigorous introspection

NO NONSENSE: Sebi Chairman C.B Bhave will have to act decisively, and soon

sider themselves the watchdogs of public interest, they have failed too. Dig out old business newspaper reports, magazine articles and television clips to get a sense of how watchful we were.

Do not forget the market analyst community either. Expectations of analysts are that they know better than ordinary investors. Didn't they see a pattern, or sense something of what was to come? Could they have really been so gullible over the years that Raju said he was doing it?

Blinded By The Light?

Satyam's auditors Price Waterhouse — and the partner who signed the auditor's report, Srinivas Talluri — will come in for a lot of blame. In statements issued on 7 and 8 January, the firm refused to comment on developments, citing client confidentiality. Repeated efforts to elicit something more met with no success. It seems inconceivable that the company's auditors did not know what was going on, says a chartered accountant who has conducted several company audits. "Assets can be overstated, but cash balances are much harder to manipulate without deliberate deception."

But it is just as easy to lie to auditors as it is to shareholders. "It may be too early to jump to the conclusion that the auditors knew, as some people are alleging," says Somashekar Sundaresan, partner at J Sagar and Associates, a law firm based in Mumbai. "You may be able to question whether they were negligent, but proving it is not easy. And alleging complicity goes way beyond what we know about the situation at this point." Which raises another question: how much should an auditor know?

Conventionally, an auditor takes an independent, but neutral look at procedures, controls and records, based on a sampling of various transactions. The primary aim is not to uncover wrongdoing, but to satisfy lenders' and investors' interests on the overall financial condition of the audited company.

Some suggest that it is forensic accounting that is needed: but the premise of forensic accounting is that accounting statements do not tell the whole truth, an advocacy perspective rather than an independent or neutral one that auditors have to take.

"That auditors are watchdogs, not bloodhounds, is an old adage of the profession. All too often, face a trade-off between speed and accuracy, says Nilesh Ganjwala, himself a chartered accountant and CEO of Innergize Solutions, a consulting firm in Mumbai. "Shareholders and investors want audited company results fast, which could constrain the amount of time spent on doing a thorough audit."

Quality Control And Peer Reviews

What about internal audit? Internal audits are not mandatory, though an external audit must state if one is absent. Besides, internal auditors do not necessarily have to be chartered accountants. Is there a case for strengthening the internal audit process so they can become whistleblowers if the need arises? Like Cynthia Cooper, an internal auditor at WorldCom, the US telecom operator whose CEO Bernie Ebbers approved fabricating the company's accounts, fraudulently creating ways of taking money out of the company.

Does the ICAI carry out any research on the quality of company audits? Our attempts to contact ICAI officeholders met with no success, but we were able to glean some information by talking to some members of the association.

For audits of the large firms — say about 200 of them — the ICAI conducts a peer review: it looks at whether the auditing firm asked all the relevant questions, and followed all the processes associated with a robust audit. Audit firms maintain files on their audits, and every firm comes up for peer review every three-four years. The association also has a continuous training programme for auditors that is mandatory, and by which CAs stay abreast of the latest developments in their profession globally.

Monthly newsletters from the institute also

16 Dec 2008
Satyam announces plans to buy 51 per cent stake in Maytas Infra and 100 per cent in Maytas Properties for a combined sum of $1.6 billion. Does a rapid U-turn, kills the deal just 12 hours later

17 Dec 2008
Chairman B. Ramalinga Raju says the about-turn reflected negative investor reaction

18 Dec 2008
Announces board meeting on 29 December to consider a share buyback in a bid to restore confidence

23 DEC 2008
Barred from business with the World Bank for eight years for providing Bank staff with "improper benefits". Its shares fall another 14 per cent to their lowest in more than four years

25 Dec 2008
Satyam says it asked the World Bank to withdraw "inappropriate" statements

point out ways in which companies might resort to 'creative accounting' practices. It examines annual reports, and seeks to identify some unusual ways in which certain kinds of income are recognised in the company's accounts, for instance. Compare that to the American Accounting Association's (AAA) approach.

The Auditor's report is a study carried out by the AAA on company audits conducted over years; it looks at the number of instances that auditors offer unqualified opinions, for example. Each time accounts need to recast — and there have been several occasions in the past several years when that has happened — the AAA reviews what the auditors had earlier certified as a fair and accurate picture of the company's financial position. It is not clear that the ICAI has such a research programme.

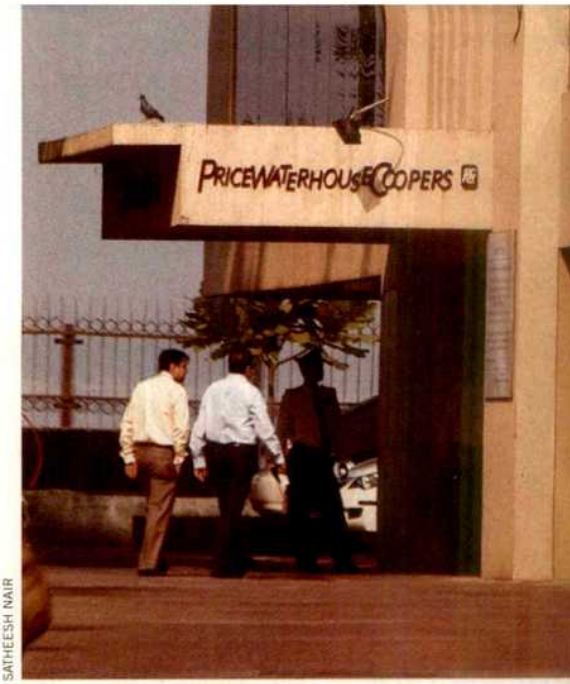
The Regulator's Dilemma

The government — the Ministry of Corporate Affairs to be specific — and the Securities and Exchange Board of India (Sebi) have ordered investigations into the Satyam episode. No time frame has been given by Sebi, but that is not unusual. But eyebrows have been raised on the delay in Sebi action.

Sebi Chairman C.B. Bhave has the reputation of a person who brooks no nonsense; but the regulator needs to show it can act without further delay and act tough. The regulator has said that it plans to examine the extent of breach of trust and fiduciary irresponsibility of the directors and the board in assessing what action it will take.

"It was obvious from the reversal in 24 hours of Satyam's board meeting announcement in mid-December that a serious malfunction in corporate governance had taken place," says Virendra Jain, director in Delhi-based Midas Touch Investors Association. Within two days, the association, in its capacity as a Sebi-registered investors association, wrote to Sebi seeking a probe into the Satyam-Maytas deal and the fiduciary role of directors.

Even before markets opened in New York, the New York Stock Exchange (NYSE) suspended trading in Satyam's American Depository Receipts (ADRs); while the issue is debatable in the Indian context, the National Stock Exchange (NSE) has replaced Satyam in the Nifty Fifty (NSE's index) with Reliance Capital, with effect from 12 January. Brokerage firms have been very quick to drop coverage of the stock for their clientele.



SATHEESH NAIR

UNDER INTENSE SCRUTINY: Questions about Price Waterhouse (part of PwC) will dominate the discussions in the coming days

And what of the exchanges? How carefully do they scrutinise the returns filed with them as part of disclosure requirements? For instance, in its regular quarterly disclosure of shareholding pattern, Maytas Infrastructure, the company promoted by Satyam's promoters, there is a seeming distortion. An individual B. Rama Raju is listed as holding as 2.5 per cent stake in the promoters category; the same name also appears as holding 8.7 per cent in the public category. B. Rama Raju was the managing director of Satyam till 7 January. If he is also the shareholder named in the two separate categories, it's a clear violation of the listing norms. Queries were sent to the company, the Bombay Stock Exchange and the NSE, but no replies were received till the time *BW* went to press.

First Rate Or Cut Rate?

Following the Satyam fiasco, is there a possibility that more instances of manipulation of company books will emerge? The Clear Capital research report referred to earlier definitely suggests it. "Companies with significantly large

26 Dec 2008
Mangalam Srinivasan, an independent director, resigns

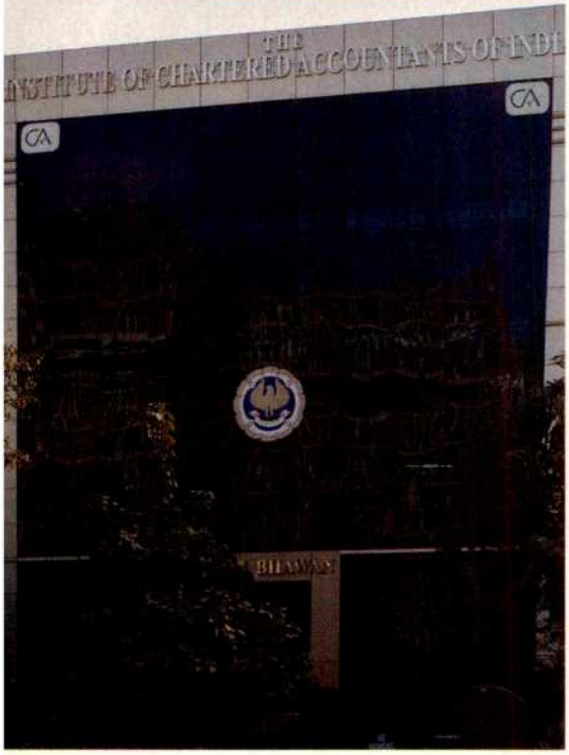
28 Dec 2008
Satyam defers board meeting until 10 January to give itself time to consider options to shore up investor confidence

29 Dec 2008
Three more directors — Krishna Palepu, Vinod Dham and Mendu Rammohan Rao — quit

02 Jan 2009
Satyam says its founder's stake fell by a third to 5.13 per cent. Analysts say this means the company is a more attractive bid target

06 Jan 2009
Shares rise more than 7 per cent on a newspaper report that Satyam had been approached by smaller rival Tech Mahindra for an all-share merger

07 Jan 2009
Ramalinga Raju sends letter to board of directors and exchanges; admits to committing financial fraud for many years and submits resignation. Appoints Ram Mynampati as interim CEO of Satyam



TRIBHUWAN SHARMA

SOUL SEARCHING: ICAI will have to take long-term measures to ensure that Satyam-like episodes do not occur

asset and liability bases — realty companies, for example — could be likely candidates," says the head of a leading investment banking and securities firm in Mumbai. "More companies indulge in cooking the books than you'd believe."

If Raju was forced to manipulate the numbers on both the assets and liabilities side of his company which carries almost no debt, what can we say of companies that may be over-leveraged and low on cash on their books? Here is where the role of credit-rating agencies comes into play. For better or for worse, investors and lenders (both individual and retail) view ratings as the seal of good house-keeping — or rather, book-keeping. They are a key part of the framework that analyses and disseminates financial information to investors and markets.

In October 2007, Raymond McDaniel, CEO of Moody's in the US, told his board in a confidential briefing that the quality of credit ratings was in danger because of trends "that could put the entire financial system at risk". Frank Raiter, Standard & Poor's (S&P) managing director and head of residential mortgage-backed securities ratings from March 1995 to April 2005, told a Congressional committee in October 2008 that the rating agencies focused on maximising short-term profits, and that money from rating asset-backed securities became so great that managers lost focus. S&P failed to implement a model that could have given earlier warnings about many new products, apparently because of cost considerations.

The same cannot be said about the Indian context, but the cloud of doubt nevertheless persists. True, by and large, rating agencies have been fairly good at what they do, but when they do fail, they fail spectacularly. "The troika of auditors, regulators/exchanges and credit rating agencies reinforce each other's views," says the chief financial officer of a leading manufacturer who wished to remain anonymous. "Where are the checks and balances?" No rating agency head was available for comment at the time of going to press, but it is a good question to keep in mind when reviewing the actions to follow in dealing with the aftermath of the Satyam saga.

Who's Next?

Clear Capital's report, the one that this article has referred to, suggests that creative accounting is not the preserve of any one sector. The 50 firms with the most creative accounting policies include infrastructure, real estate, banking and financial services, healthcare, chemicals and consumer goods: companies with large asset bases and those that carry large inventories.

So for restricting the problem to a particular group, Clear Capital's analysis suggests the difficulties of trying to do so. But the firm's analysis was unable to establish a relationship between company size and the tendency to use such practices; that said, can we assume that large firms that are subject to greater public scrutiny because of their size are not likely to do so?

The question of penalties for Raju will be settled in due course. Under the law, the penalties for misrepresentation of accounts may not be significant; as it is, Raju has lost his reputation, control of the company he built and his stake in it, and going by his claims, lots of money to the tune of millions. That may be punishment enough in monetary terms, even if the fines under the law are small change. "And if he has made any personal gains from this, then the minimum fine could range from a minimum of Rs 25 crore to three times the actual gains made," says Sundaresan of J Sagar.

Corporate India's shock and subsequent condemnation of Raju — which varied from "it's a sad episode in India's corporate history" through "we are not all like him" to "he has ruined our global reputation" — smacks of a little hypocrisy. While he has admitted guilt, the jury is still out on the extent of his deception and fraud.

Yes, this is the first instance where a respected corporate CEO has confessed to wrongdoing; but there have been other, more egregious abuses of our system. For years after he was banned from the stockmarkets, the late Harshad Mehta — chief architect of the securities scam of 1992 — was revered as a visionary. Let us not allow our current feeling of betrayal make us forget those who went before Raju, and others who are yet to follow.

With inputs from Dhanya Krishnakumar, Rajesh Gajra and Venkatesh Ganesh
srikanth.srinivas@abp.in

For industry reactions, updated news and expert opinions on Satyam, go to *www.businessworld.in*

Hope Amidst Hopelessness

by kenneth rogoff

YOU KNOW THAT AMERICAN SELF-CONFIDENCE is shaken when even the President starts expressing fear that the financial crisis may turn out worse than the Great Depression of the 1930s. George W. Bush is not alone. A growing number of savvy business people are also starting to wonder whether the US will be able to right its economy anytime soon.

Professional forecasters are considerably more sanguine, with the consensus forecast for US growth in 2009 at around -1.5 per cent, after a similar contraction in the second half of 2008. This would be a painful recession, but far short of the 10-15 per cent output drop normally associated with a full-blown depression. Of course, economic forecasters have generally been far too optimistic at every turn of late, so the public is understandably leery of their prognostications. Consensus forecasts do still seem optimistic. The US economy is looking more vulnerable than it has at any time since the 1970s, and perhaps since World War II.

2009 will be a tough year, but there is a fair chance that 2010 will see a restoration of weak growth in the US

Still, it must be noted that negative output growth for more than two years is a relatively rare event. Historical statistical relationships are perhaps cold comfort in a downturn that now seems so insidiously different from previous catastrophes. But they should not be dismissed. Japan may have taken what seemed like forever to recover from its 1990s crisis, but it is an exception.

The complete policy paralysis that has prevailed during the interregnum between Bush and President-elect Barack Obama has not helped. US policy has devolved into a sort of 'wheel of fortune' game for financial firms. One day you get bankruptcy, another day loans with few strings attached. One hopes that Obama's all-star economic team will at least adopt a coherent and consistent policy. Consistency alone would be a big boost for confidence.

The basic elements of a recovery package include, first and foremost, a rational approach to rebooting the financial system. This means mark-to-market pricing of assets, restructuring and recapitalising banks, and a new approach to regulation that allows creativity while better protecting the public against some of the madness that has prevailed for long. Help for housing is required, as is massive macroeconomic stimulus, including a moderately inflationary monetary policy.

Many leaders, most prominently Germany's Angela Merkel, are worried about the longer-term consequences of aggressive macroeconomic stimulus. These concerns are valid, even more so given government's growing role in the economy. But, as in wartime, one hopes these effects are temporary. Besides, is inaction a real alternative?

Prior to the 1950s, output drops of 15-20 per cent in a year were routine (admittedly, national income accounting was more primitive). A number of economists say we should simply tough it out as we did back then. Recessions have important cleansing effects, helping to facilitate painful restructuring.

But today's social, economic and political systems are unable to withstand a peacetime decline in output of 15-20 per cent within a short period. Massive stimulus and intervention — the US Fed's current stance — is unavoidable. One can only hope that the state can get out of the economy half as fast as it is getting in. Nevertheless, the distinct possibility that such actions may work is further cause to hope that the deepening recession will not morph into a full-blown depression.

The US may be ground zero for the global financial crisis, but it is not the only one riven by self-doubt. Britain, Ireland and Spain face crises of a similar magnitude. Some countries that depend on energy exports, particularly governance-challenged ones such as Russia and Venezuela, are experiencing even worse downturns. Even once-invulnerable China must contemplate a halving of its growth rate. Europe and Japan do not have quite as complex financial messes as the US. But these regions are nevertheless mired in recession. The global economy is in a pickle.

But, just as optimists were too sanguine in the boom, ultra-pessimists probably go too far in forecasting a depression around the corner. 2009 will be a tough year. Yet, absent a large-scale conflagration, there is a fair chance that 2010 will see a restoration of weak growth in the US, Europe and Japan, and probably robust growth in most emerging markets. The US economy may have lost a fair chunk of its mojo, but it will require a lot more bad luck and policy blunders to get to a second worldwide Great Depression.

Kenneth Rogoff is Professor of Economics and Public Policy at Harvard University, and was formerly chief economist at the IMF.
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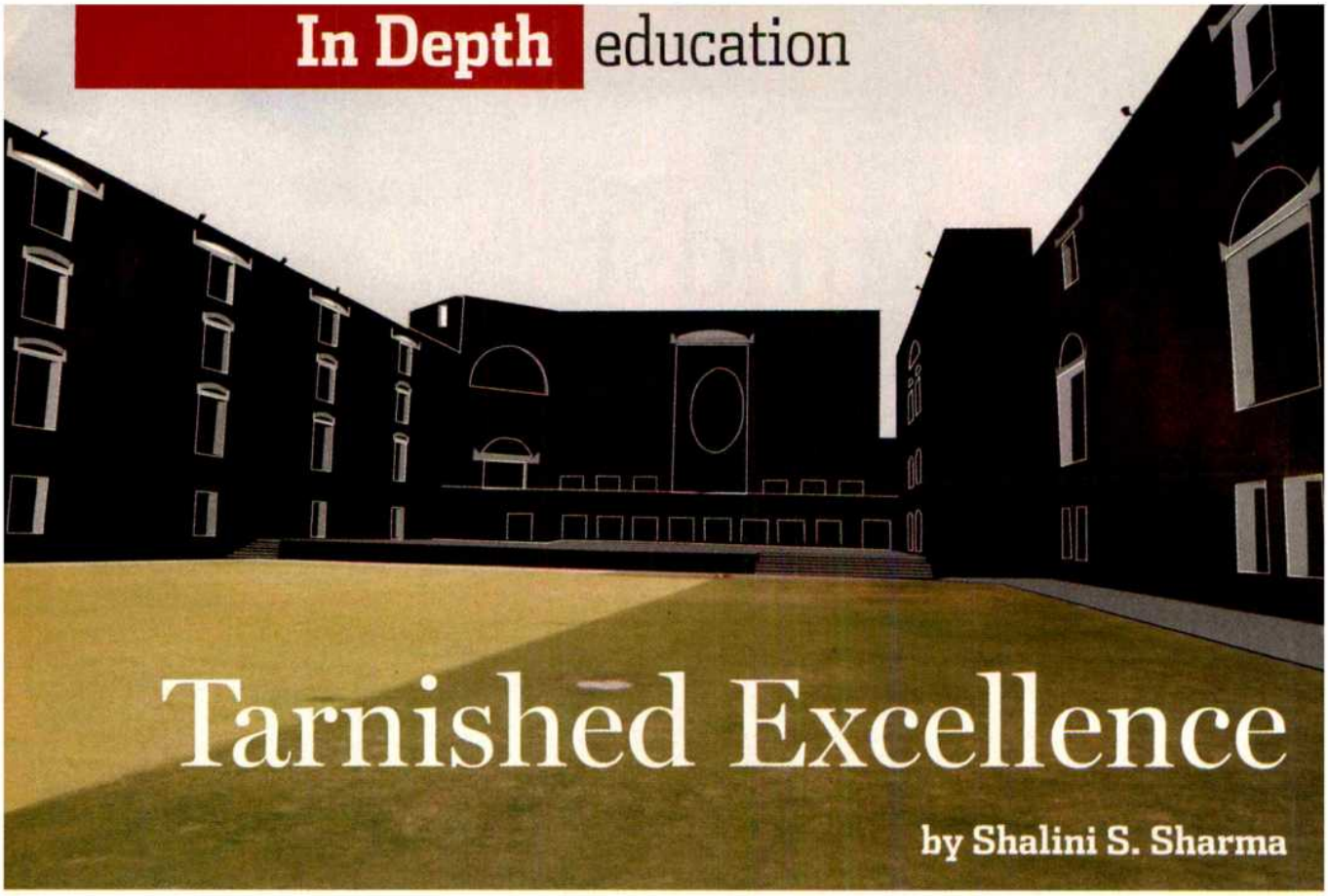


Tarnished Excellence

by Shalini S. Sharma

IIMs are losing their lustre, yet resisting government intrusion

THEY ARE ARGUABLY THE BEST B-SCHOOLS IN INDIA. The IIMs, of course. Unfortunately, this may not hold true much longer. For the first time since their inception, the state-owned but autonomous Indian Institutes of Management are being seen as less than exceptional. The unkindest cut is that, to a large extent, the institutes themselves are to blame for their tarnished sheen.

Critics point out that the IIMs have a *sarkari* mindset — they are oblivious to competition and blase about accountability — ironically, among the very business flaws that are dissected regularly in their classrooms.

But IIMs say there is too much government interference, as they struggle to retain the fiercely independent spirit of their board and directors. The government-appointed IIM Review Committee (IRC), set up in October 2007 and helmed by former Maruti Suzuki chief, R.C. Bhargava, was one of the many such attempts by the government to redraw boundaries.

In its report in September 2008, IRC called for a pan-IIM board as an umbrella institutional mechanism to guide the seven institutes.

However, Bhargava himself has been quoted as saying, "... the government as such is a nebulous entity". The challenge, he says, is to combine giving full powers to the IIM boards, while ensuring the public character and accountability of these institutions.

In reality, the IIMs have always fought tooth and nail at any attempt on imposition of rules, which they rightly fear will lead to a whittling of standards. The IRC's recommendations have predictably met with the same reaction. "IIMs wish to compete with the best in the world but will not be able to do so if their hands continue to remain tied at the back," says director of IIM-Bangalore, Pankaj Chandra. "IRC's suggestions simply tighten this knot."

The tugs and pulls of politics have embroiled IIMs in controversies before. Infosys mentor N.R. Narayana Murthy famously stood by the IIM-Ahmedabad board during his tenure as chairman of the institute, opposing the proposed fee cut by the then human resource development minister, Murli Manohar Joshi. Murthy's counterpart in IIM-Calcutta, Y.C. Deveshwar, however, decided to accept the cut as well as side with the minister on the issue of change in syllabus — which the institute's board was opposing. Similarly, the present chairman of IIM-A, Vijaypat Singhania, was also eager at one point of time to make the school toe the vote-bank friendly government line on keeping down the fee.

The IRC report could become one more bone of contention for the helmsmen at IIMs. While the last meeting of IIM-A on the subject of the IRC report was inconclusive, a fresh one is slated to take place soon. IIM-Bangalore, in its submissions to the government, has rejected it. On its part, the government says it is "collating the re-

sponses" and "will decide soon what view to take".

Painful Arithmetic

Politics apart, India's premier management institutes are just not producing enough managers. Smply there are too few IIMs. A lesser-known institute like the Delhi-based Indian Institute of Planning and Management (IIPM) produces 3,000 graduates every year while IIMs churn out only 300 or only 5 per cent of the country's management graduates.

The arithmetic works this way — of approximately 250,000 aspirants, only 1,800 get selected, which means every candidate has only 1 per cent chance of an admission. Twenty-five per cent of these, who graduate from IIM-A, B and C prefer to look for better opportunities abroad, the number is 15 per cent for the other four IIMs. "Many of my friends, and my brother, who is also an IIM graduate, are teaching abroad because Indian institutes simply cannot pay them [well enough]," says Sanjeev Bikhchandani, CEO of Naukri.com and an alumni of the 1989 batch of IIM-A.

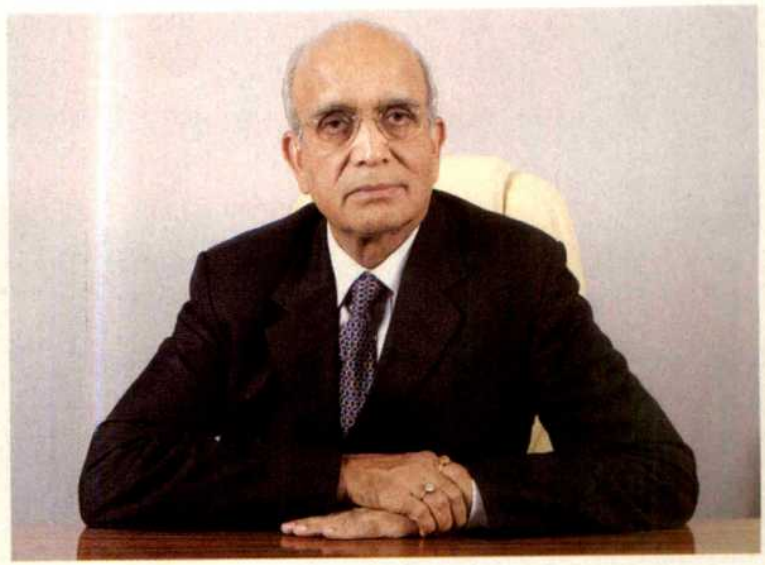
For A Few Professors More

The dilemma is deeper for IIMs. Not being able to hold back IIM graduates to work in the country is one thing, failing to attract top-notch faculty is quite another. The reason: they are unable to pay top-dollar salaries. While freshers are hired by big corporates on IIM campuses for astronomical sums, their teachers are paid in accordance with the grades set by the government's pay commissions. The maximum salary an IIM professor can get during her lifetime is Rs 6 lakh per annum. The paltry pay is also the reason why very few graduates pursue research. What the IRC report says, then, does not come as a big surprise: "The quality and quantity of research papers from IIMs have not been commensurate with the status of IIMs and have not enabled IIMs to become thought leaders."

The Sixth Pay Commission may not help improve the dismal scenario. So, for the time being, IIM professors continue to spread themselves thin by focusing on short-term executive courses — to make up for poor salaries — instead of devoting time to research.

Bhargava has a solution to this problem in his report — hire teachers on contracts at 70 per cent of the market price and also pay consultancy and housing. The dean of programme affairs at IIM-Calcutta, Prof. Saibal Chattopadhyay, says some teachers are already hired on contracts routinely, but mainly where the candidates do not fulfil the criterion of work experience.

The IRC also wants the focus back on MBA programmes, away from the increasing number of short-term executive programmes, distracting faculty. Members of the faculty can be sponsored to undertake research abroad, with bonds that they will return. It also wants the number of directors on the boards reduced.



OPINION MAKER: R.C. Bhargava, Chairman, IIM Review Committee

Chairman of Yale University, Richard Levin, on a visit to India recently, hit the nail on the head when he said that instead of trying to get into the numbers game, India should focus on building just a couple of world-class institutes because, "there is just not enough faculty talent to go around".

The Number Game

The advice of Levin and many like him is being rejected. Six new institutes of management are set to come up soon, basically to cater to the government's quota requirements. The fears are quite valid. "The intake should not be increased simply for the sake of numbers as that could compromise quality," says R. Jayaraman, alumni of 1972 batch and in-charge of IIM-A's alumni association's Delhi chapter.

The pan-IIM board also need not include A, B and C institutes, and can have only the younger ones — which still depend on the government for funds and resources — under it.

While it is unlikely that the IIMs will accept anything that is imposed on them from the outside, being at perpetual loggerheads with the government will not help either. But change, which is the need of the hour, should ideally come from within. It is time for the IIMs and their prized students to drum up some ideas for renewing and building the lustre of the institutes. Surely, they have just the right qualifications for the task.

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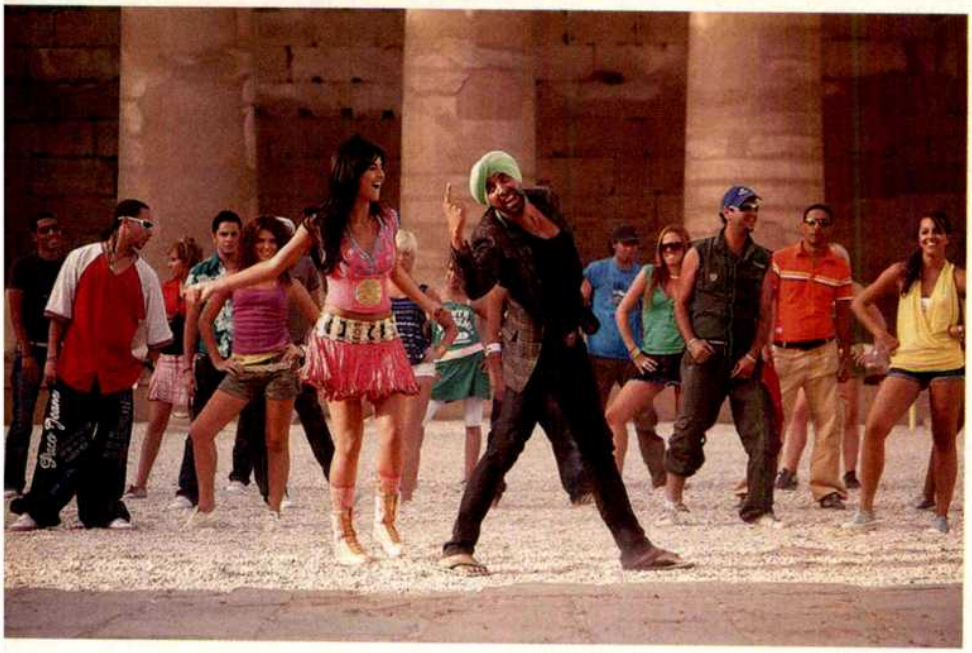


The Big Picture

by Gurbir Singh

Is the expansionist Ambani strategy working for Adlabs?

TWO ICONIC CINEMA THEATRES IN THE COUNTRY — KG Cinemas in Coimbatore and Odeon in New Delhi's Connaught Place — will re-open later this month. KG Cinemas, one of the first multiplexes in India, upgraded to 'international standards' and Odeon retrofitted to make a comeback as a multiplex.

This is part of the script of Anil Dhirubhai Ambani Group (ADAG)-owned Adlabs Films' bid to modernise decrepit cinema halls. Tushar Dhingra, chief operating officer of Adlabs, says he flies 4-5 times a week to different destinations to seal such deals.

Expansion, scale-up, acquisition — these terms seem to be directing Adlabs after its takeover by ADAG in 2005. Or is it just the word 'BIG'? Since that is also the brand name Ambani uses for his entertainment properties.

And it doesn't get bigger than this. At Cannes, in September, an ADAG spokesperson announced 69 movies in the production pipeline and plans to launch as many as 52 satellite TV channels. These plans have understandably been trimmed since but the company's mantra stays the same — the bigger, the better.

But then, good things still come in smaller packages for some.

Manmohan Shetty, former chairman of the company — who stepped down in November 2007 and holds a 4.4 per cent stake — says the acquisition of exhibition centres is both excessive and indiscriminate, and threatens long-term profitability.

Leapfrogging Growth

Manmohan Shetty and his co-promoter Vassanji Mamania had made Adlabs a hit even before Anil Ambani bought 66 per cent stake in the company for around Rs 337 crore. In an industry known for its knee-jerk ways, the company had cornered 70 percent of the film processing market, and was the largest multiplex operator with 51 screens across the country.

But Anil Ambani's Adlabs made Shetty's Adlabs look puny with leapfrogging growth and a steady flow of funds. In 2005, Ambani infused Rs 227 crore by way of equity and $100 million (Rs 450 crore) through a foreign currency convertible bond (FCCB) issue, thereafter.

Three years after the takeover, Adlabs owns close to 450 screens, most of them overseas. The lion's share — 200 — was acquired in the US, another 51 in Malaysia and six in Mauritius. In India, the company has 186 screens spread over 83 cinema properties providing 71,000 seats.

The company is no longer content to be a film-processing lab. It has morphed into a key player providing services such as equipment rentals to the film value chain. And now it is time for lights, camera and action, as it readies 2 lakh sq. ft of shooting floors to go on stream by December 2009 in Mumbai's Film City campus.

TASTE OF SUCCESS: *Singh Is Kinng*, distributed by Adlabs, did extremely well in the overseas markets

MIXED FORTUNES

Adlab's income has risen sharply, but its profits have fallen

	Total income	Operating profit	Net profit
FY 2009[3]	518.1	(-)11.5	(-)16.0
FY 2008[2]	364.4	44.0	48.0
FY 2007[1]	385.3	216.5	85.3
FY 2006 *	113.2	45.5	26.3
FY 2005 *	88.0	39.7	21.1

*Manmohan Shetty period **Figures in Rs crore; [1]April '06 to June '07; [2]July '07 to March '08; [3]H1 till September '08 Source: BSE online

"We play every movie, we service every film. Says Anil Arjun, CEO of Adlabs, "The strategy is to stay neutral, and get a share of every wallet."

However, the spanking expansion has dented the company's once healthy bottom line. For the first quarter of the current financial year, net profit is just Rs 2.3 crore compared to Rs 22.4 crore (YoY). For the quarter ended September 30, this financial year, the company has actually suffered a net loss of Rs 20.8 crore.

Says Farokh Balsara, Ernst & Young's national sector leader for media & entertainment, "Growth at any cost seems to be the approach at Adlabs. Acquisition of expensive properties may not necessarily give the company a profitable business."

Lacking Direction?

The swift scale-up does get reflected in the company's topline figures. The post-ADAG Adlabs saw a three-fold expansion to Rs 365 crore in FY 2007, and a further jump to Rs 518 crore in the first half of the current fiscal, from an average revenue of Rs 100 crore.

But that is no consolation for Shetty who is scathing in his criticism of the recent business decisions taken at the company he founded.

"It was I as chairman after ADAG took over who suggested the selective acquisition of screens in the US to help our Hindi film distribution network," says Shetty. "What Adlabs has now is a chain of theatres showing Hollywood movies, which is not our core competence."

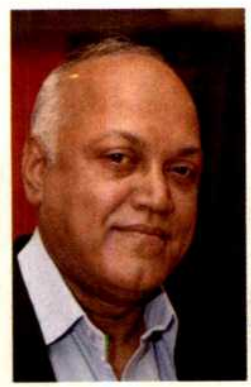
Arjun, however, denies Shetty's claims saying the focus is still on Indian movies in Indian circuits such as New Jersey and New York, where the company has acquired a string of mom and pop cinemas.

Shetty does not see much value in Adlabs' takeover drive in the domestic market either. "There is no point indiscriminately acquiring expensive cinemas in B and C towns. In our survey of a big hit such as *Fanaa*, we found only 380 cinema properties in cities and big towns that were a good bet for acquisition."

The Adlabs CEO comes around in defence. "Our presence in 50-60 cities has added depth to our distribution strategy. By retrofitting old cinemas, we can offer as many as nine shows a day. *Ghajini* in Belgaum is still running housefull. Our chain is taking 15 per cent of all domestic box office revenues today."

Another acquisition that has raised eyebrows is the 50 per cent stake bought by group company Reliance Big Entertainment in N.D. Studios in Karjat. Besides the high valuation, a producer points out, the business value of the studio was in the Nitin Desai's brand name. "What happens if Nitin Desai decides to flog his stake?" he asks.

But Rajesh Jain, KPMG's national industry director tracking entertainment, says "Adlabs is in its investment phase and the bottom line could suffer when you are scaling up quickly." Jain feels such moves will pay off in the long run.


SANJIT KUNDU

TRIBHUWAN SHARMA

SUBHABRATA DAS

POWER PLAY: (From left) Manmohan Shetty, founder and former Chairman, Adlabs; Anil Ambani, Chairman, ADAG; and Anil Arjun, CEO, Adlabs

Juggling The Verticals

Adlabs is coupling the acquisition explosion with internal restructuring. A part of what it calls synergy strategy is to hive off production and distribution to Reliance Big Entertainment.

"For Adlabs, a significant play in film production/distribution would skew the company's balance sheet profile in terms of capital employed; while a limited play would essentially mean not tapping into the opportunity fully," says Arjun.

Shetty has a conflicting view. He says the promoters want to reap the benefits of such high investments through a closely held company rather than share it with Adlabs' shareholders.

Adlabs has also decided to spin off its FM radio operations, which were proving to be a drag on the company's profit. Keeping radio on its books prevents Adlabs from seeking foreign investment."The quarter numbers reflect the impact of loss incurred on this account," Arjun said.

And replacing traditional segments such as radio in Adlabs, are high technology offerings such as digital treatment and special effects.

"We are the first in Asia offering traditional lab facilities, together with a D I Lab that raises treatment of film prints to international 4K standards, as well digital mastering facility to prevent film piracy," says Patrick von Sychowski, chief operating officer of Adlabs Digital Cinema.

Adlabs plans to use the 80,000 km of optic fibre cable laid by another ADAG subsidiary Reliance Communications, for transmitting movies directly to the screens. The route came in handy when the prints of *Mission Istanbul* could not be delivered to theatres in Ahmedabad due to cancellation of scheduled flights.

Anil Ambani has brought to Adlabs, the Ambani flavour of magnificence. But will it pay off?

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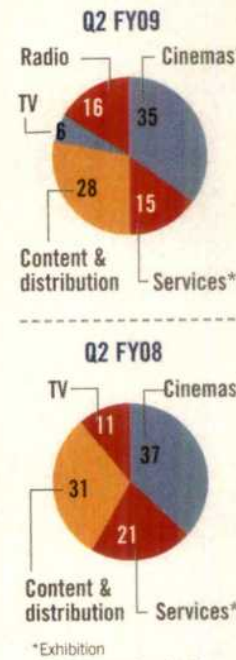
A FAIR SHARE

Percentage share of Adlabs' various media interests



*Exhibition
**Film processing, digital, post production
Source: *BW* research

Dreams Suspended

by Kandula Subramaniam

Where are the funds to finance India's infrastructure projects?

THE BEST-LAID PLANS, TO PARAPHRASE THE POEM, often go nowhere. The government's plans to propel infrastructure spending from the current 5 per cent of GDP to 9 per cent by 2011, is hitting one such dead-end. An estimated Rs 9,84,500 crore ($203 billion) of debt funds alone is needed to finance that.

Given the liquidity crunch, where will funds of such proportion come from? The answer is more complicated than it appears. Apart from the Infrastructure Development Finance Corporation (IDFC) — that specialises in infrastructure lending (debt and equity) — commercial banks, non-banking finance companies (NBFCs), insurance firms, and external commercial borrowings (ECBs) are other sources of funds for infrastructure projects. Also, the India Infrastructure Finance Company (IIFCL) was set up in 2005 to extend long-term finance.

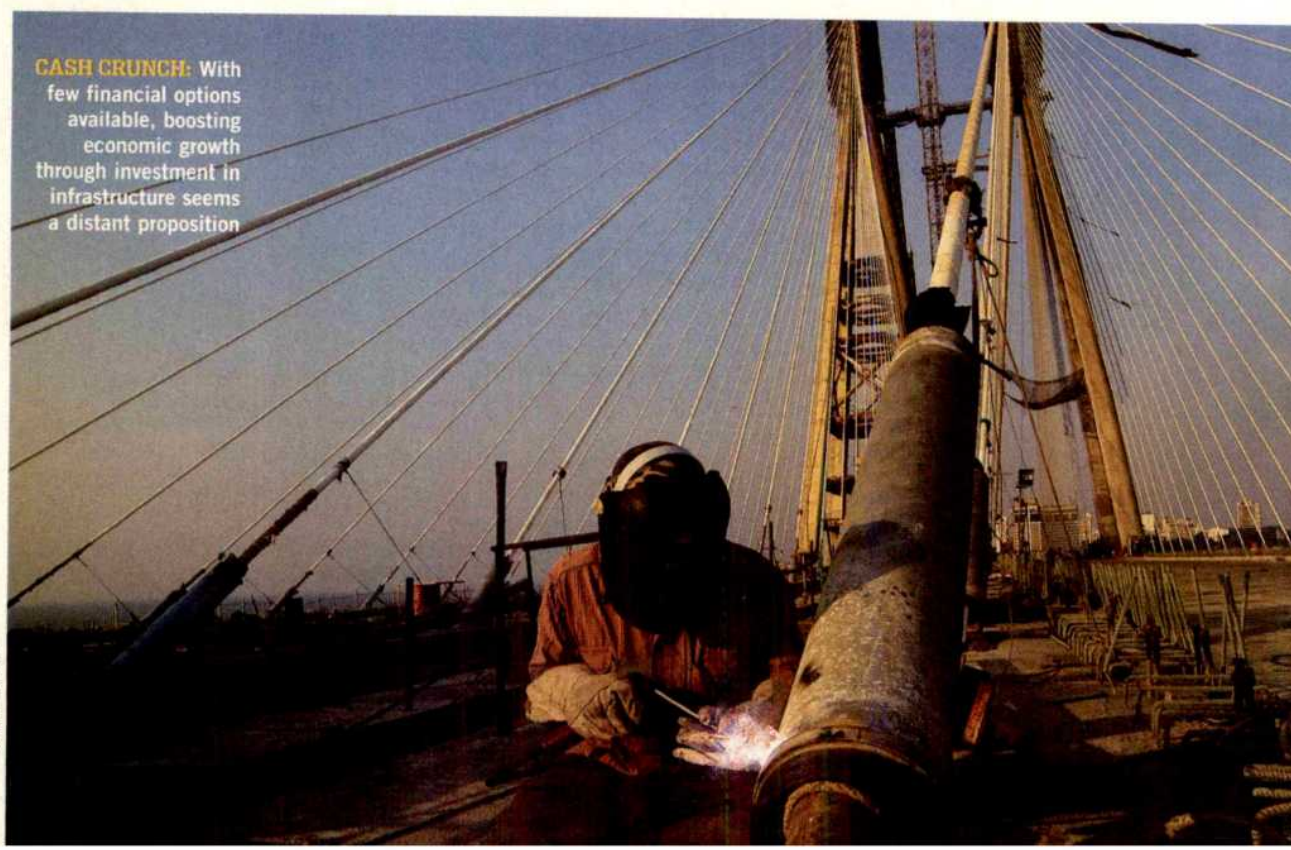
While that seems like a long list of lenders, in reality, banks hit their group exposure (see box) limits very fast as far as infrastructure projects are concerned, insurance and pension companies are stymied by rating requirements, and the government's IIFCL-routed interim measure is just that — a stopgap in a long haul.

Meanwhile, on 23 December last year, IDFC's managing director Rajiv Lal made a presentation to the government, highlighting serious problems in infrastructure finance, which involve asset-liability mismatches, exposure limitations, and prudential norms. And Prime Minister Manmohan Singh told Parliament last year that sources of funds such as ECBs, and also working capital funds, had dried up. With most financial doors closed, boosting economic growth through investment in infrastructure, in the current slowdown, seems distant.

Small Banks, Big Problem

Lal notes that "Indian banks are relatively small. Only 11 banks had equity above $ 1 billion (Rs 4,900 crore) in March 2007 — of which two were private sector banks. State Bank of India (SBI) had just over $7 billion of capital in March 2007." The total equity of the 82 scheduled commercial banks (including 29 foreign banks) was $ 49.8 billion.

"Thus, there are many small banks, most of which do not engage in infrastructure lending, and the handful of banks that are actively lending to infrastructure are likely to reach exposure



CASH CRUNCH: With few financial options available, boosting economic growth through investment in infrastructure seems a distant proposition

SATHEESH NAIR

limits if they continue lending at this pace."

Meanwhile, group exposure guidelines of the Reserve Bank of India (RBI) also limits a bank's exposure to any group, to 50 per cent of its capital funds. This ceiling can be breached very quickly for companies specialising in infrastructure projects. For instance, a group company with two ultra mega power projects (of Rs 20,000 crore each), and a Rs 1,000-crore road project executed through separate special purpose vehicles (SPVs) can require debt funds to the tune of Rs 29,000 crore. So, RBI's group exposure cap limits developers to their bank's exposure ceiling.

In fact, although remaining within the RBI's domain, in December last year, the Prime Minister's special committee on the stimulus package considered a possible relaxation of the group exposure requirement of banks, for the next 18 months. But given the sensitive nature of the matter, sources in RBI say, there is status quo on the norms for infrastructure.

Feeble Alternatives

If group exposure is one major hurdle in raising funds for infrastructure projects through banks, insurance and pension funds, also a source of long-term funds, are equally unenthused about lending to the sector.

Lal during his 23 December meeting with the government said, "With the exception of LIC, insurance companies, pension and provident funds rarely invest in paper with a maturity longer than five to seven years". In fact, projections show that barely 5-6 per cent of the total debt funds needed for infrastructure come from insurance companies. Lal also says insurance funds would not be available as the Insurance Regulatory and Development Authority's (Irda) investment guidelines call for project rating of not less than AA.

Generally, infrastructure projects that depend on, say, toll collections or airport traffic get a BBB rating. Projects with minimum guaranteed revenue (like an assured offtake in power projects) get a higher rating, a source in the infrastructure sector explained. Therefore, important road or national highway projects would carry only a rating of BBB. Infrastructure projects are structured and financed very differently from other ventures. They have large upfront capital costs where lenders (who provide 60-70 per cent of the project cost) are repaid only from the project's revenue stream — toll collections in the case of highway projects. Added to this, huge infrastructure projects are executed through SPVs or individual project companies and cannot bank on the parent company for guarantees (non-recourse). Therefore, the credit rating of the project company is solely dependent on the revenue stream forecast lasting for the concession period of 15-20 years.

VISIBLE CONSTRAINTS

SUBHABRATA DAS

DEEPAK PAREKH COMMITTEE: Stepdown subsidiaries — created to execute a particular infrastructure project without any dependency on the parent whatsoever — do not involve cross holdings... banks' lending to these subsidiaries is not vulnerable to the bankruptcy of the parent... there is thus a strong case for removal of exposure to such subsidiaries from group exposure limits.

RAGHURAM RAJAN COMMITTEE: Sectoral caps and limits on single and group borrower exposure will place further constraints on financing (of infrastructure). While it might be tempting to relax prudential norms in the cause of infrastructure, this would simply be wrong — infrastructure finance can be risky, and it would be short-sighted to sacrifice the health of the banking system on the altar of infrastructure finance.

BLOOMBERG

The Interim Measure

In the stimulus package announced on 2 January, the government allowed IIFCL to raise Rs 10,000 crore through tax-free bonds for refinancing bank lending of longer maturity to "eligible infrastructure bid-based PPP (public-private partnership) projects". The very fact that IIFCL's refinance window is for port and road projects is a tacit agreement that bank funds are not available for such projects.

Speaking to *BW*, the Deputy Chairman of the Planning Commission, Montek Singh Ahluwalia, clarified that "shortage of long-term funds is a key constraint and (therefore) the refinance proposal will provide immediate help".

According to officials, this (refinance window) is purely an "interim measure", and the bonds would provide a relatively cheap source of debt finance. If the amount raised adds up to to Rs 40,000 crore, it will enable infrastructure investments of about Rs 1,00,000 crore (debt and equity together). But this is still a far cry from the Rs 9,84,500 crore of debt funds needed for the infrastructure sector, by 2011-12.

Will things change? As Lal says, "...the alternative is to leave the government to build the country's infrastructure or just be reconciled to not building as much infrastructure as we need".

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The Herd Mentality

by caroline baum

AFTER A YEAR OF DENYING THE US ECONOMY was in recession, the herd has turned and is charging full speed in the opposite direction. Now there is no chance we will ever get out of this mess. The financial system is broken; banks are not lending; housing supply exceeds demand; the Fed Reserve has no tools left; consumers are tapped out; unemployment rate is soaring. All of these arguments are true to some degree, and economists are hard-pressed to find any drivers of growth.

That is almost always the case. Recession tends to make the future look bleak in the same way an expanding economy inspires confidence. The sentiment cycle is as predictable as the Earth's orbit around the sun. In the stockmarket, sentiment is considered a contrarian indicator. If money managers are all bearish, it implies that everyone who needs to sell has sold, making way for a rebound in equity prices. We could probably construct a similar indicator for economic sentiment and the business cycle.

This isn't to say I can see a way out of the current contraction or identify a magic bullet — the government's proposed fiscal stimulus, for example — that could pull us out of the slump. "You never can," says Jim Glassman, senior US economist at JPMorgan Chase & Co. "It always seems as if spending is in a death spiral when businesses turn cautious. Then, out of the blue, it stops falling and begins to grow again just because the stock of productive capacity is getting close to desired levels." This inherent dynamic — it goes down, it stops going down, it goes up — sounds like something out of Chauncey Gardiner, the simple-minded hero of Jerzy Kosinski's *Being There*. But it's true nonetheless.

What about the Great Depression? We all know how well that worked out. It went down, it went down, some more. It saw a confluence of policy errors. The government enacted protectionist trade laws, raised taxes. The Fed allowed banks to fail and the money supply to contract by a third. The central bank raised reserve requirements in 1936-1937, nipping the mid-1930s it-went-up and turning it into another it-went-down, according to Milton Friedman and Anna Schwartz, authors of *A Monetary History of the US*.

The US may see a way out of the current mess, but recovery, whenever it arrives, will not be problem-free

And those are just the big mistakes.

Fed Chairman Ben Bernanke is working hard to avoid a replay of the 1930s, honouring a commitment he made on Friedman's 90th birthday in November 2002. "I would like to say to Milton and Anna: Regarding the Great Depression. You are right, we did it. We are very sorry. But thanks to you, we won't do it again," Bernanke said.

So far, he has been doing a good job. The Fed increased bank reserves more than 600 per cent in November 2008 compared with a year earlier. That's "10 times faster than the rate at which the Fed was doing so in 1934", says Paul Kasriel, chief economist at Northern Trust Corp. in Chicago.

To date, banks have elected to hold most of that increase as excess reserves, on which they now earn interest. That won't last forever. At some point, banks will start to use those reserves to make loans and buy securities, increasing the broad money supply in the process. Even if private credit demand is tepid and credit quality is a concern, banks can always lend to the US government. The steep yield curve provides the incentive to borrow short, lend long.

Under the circumstances, "Do you really think deflation is a likely outcome over the next few years?" Kasriel says. Even in the mid-1930s, with the US unemployment rate at more than 20 per cent and more excess capacity than policymakers knew what to do with, the consumer price index "increased by 3.5 per cent, 2.6 per cent, 1 per cent and 3.7 per cent in 1934, 1935, 1936 and 1937, respectively," he says.

This is not your father's Depression, even though the herd is behaving as if it is. The spread between investment-grade bonds and Treasuries, which were "as tight as they get seven years into the expansion, are wildly wide now because there was one data point — the Great Depression — where it did not pay to buy", says Bob Barbera, chief economist at ITG Inc., a New York brokerage. "The herd mentality has no ability to see the top or the bottom."

That does not mean a recovery, whenever it arrives, will be problem-free. Many of the forces that inflated a housing bubble that ended in a bust that gave way to a recession are either back for a rerun (easy money) or implicit policy objectives (increased consumer borrowing and spending; greater allocation of capital to housing).

Or, as Gardiner would say: It goes up, it goes down.

The author is a Bloomberg News columnist.

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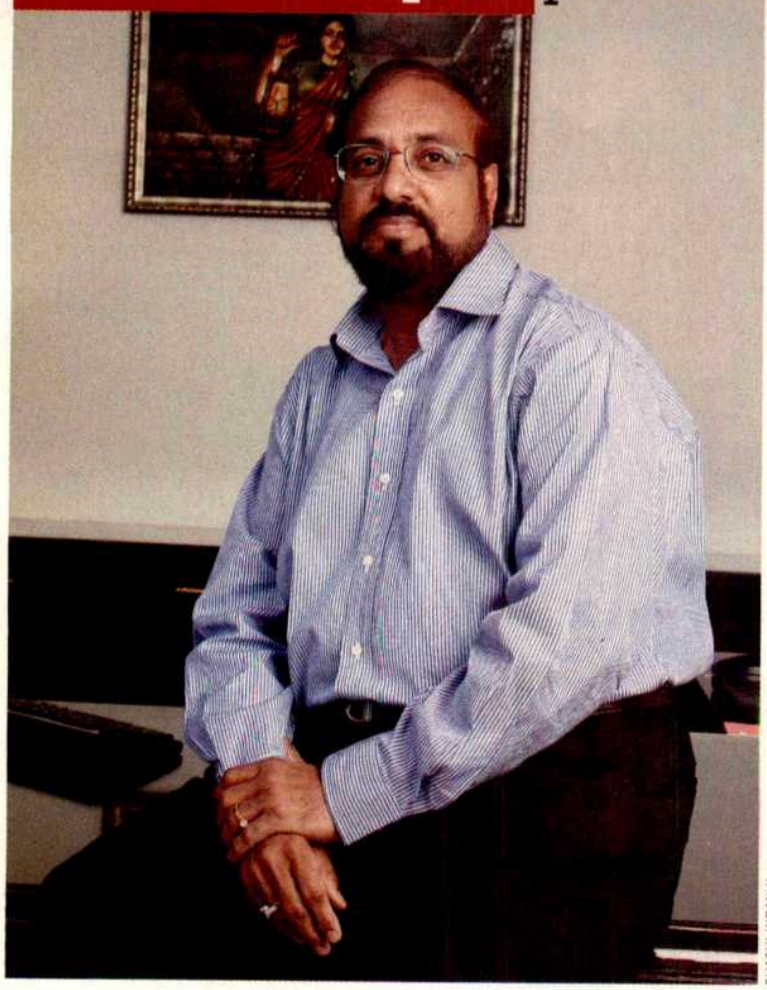

SHASHI KIRAN K

No Half Measures

by Sreevalsan Menon and Gauri Kamath

He started small, but focus has paid off for drug maker Murali Divi

PHARMACEUTICAL ANALYSTS HAD WARNED THAT HE would be a hard man to pin down. So, Murali Divi's readiness to meet with *BW* at short notice came as a rather pleasant surprise. "I just don't discuss details of my clients with analysts," says Divi, 57, chairman and managing director of Hyderabad-based Divi's Laboratories, which manufactures bulk drugs — patented and off-patent — on contract for top western drug makers. "If that is construed as being mysterious or elusive, then I can't do much about it."

The six-feet, well-built Divi's manner may appear brusque to some, but the stockmarket has shrugged this off, choosing instead to focus on his company's meteoric growth. From a modest Rs 347 crore in 2004-05, Divi's Labs' net sales topped Rs 1,000 crore in FY08. Brokerages such as Motilal Oswal expect a compounded annual growth rate of 26 per cent between now and 2010 for the company. Divi's Labs is also hugely profitable, with a 44 per cent operating margin in the second quarter of FY 2009.

It all began in 1984 for Divi, a postgraduate in pharmaceutical chemistry from the College of Pharmacy in Manipal, Karnataka. Seven years into working in the US at large specialty chemical and custom pharma manufacturing companies — first as production manager and vice-president of R&D at Fike Chemicals, and then as technical director at Schulkill Corporation — he returned to his home state of Andhra Pradesh to strike out on his own. He co-promoted two companies, Cheminor Drugs and its subsidiary Globe Organics in Hyderabad. These companies, he felt, would leverage his skills in fine chemicals manufacturing that had been honed at the US factories. An indigenous pharmaceutical industry was just making its presence felt in India after the country relaxed its patent laws in the 1970s to allow copying of drugs patented to western drug companies.

His partner in these ventures was K. Anji Reddy, founder of Dr Reddy's Laboratories, now a top generics company in India. Between 1984 and 1990, they took advantage of the opportunity presented by India's lax patent laws to copy bulk drugs patented to western companies at cut-rate prices. In that time, Cheminor, a sick company, turned around and became a leading manufacturer of bulk drugs.

But Divi wanted more. The future, he felt, was not in patent-busting. "I wanted to be ready to do business in an intellectual property-compliant regime," he says. Differences cropped up between him and Reddy, paving the way for his exit in the summer of 1990. Some years later, both companies were merged into Dr Reddy's.

After he quit the JVs, Divi started small. He launched Divi's Research Centre, an R&D and consulting company that engineered new manufacturing processes to make known drugs, and sold these to the highest Indian bidder. Divi hired fresh graduates in organic chemistry instead of experienced hands since he wanted "a different mindset". He personally trained the first two layers of researchers. In 1994, he added a factory, investing Rs 71 crore, and changed the company's name to Divi's Laboratories to make bulk drugs using its proprietary processes.

Around the same time, India agreed in the World Trade Organization to respect drug patents from 2005. Indian generics companies were given 10 years to reform. Divi began going

after the global generics opportunity — making cost-efficient, off-patent bulk drugs unlike most companies that were still getting their business from copying under-patent drugs for India and other emerging markets with lax patent rules. Even today, Divi's gets half its business from supplying off-patent bulk drugs to global generic drug firms as well as to innovator companies when patents expire. He also began targeting the market for synthesising new research molecules for western patent-owning drug firms, with the hope of bagging the manufacturing contract when the drug went through trials, and hit the market, a business area that now equals generics. In 2003, Divi's went public.

The numbers speak for themselves — Divi's market cap, at nearly Rs 8,000 crore on 15 December, equalled that of Dr Reddy's on that date. Top multinationals are Divi's customers, and he is the world leader in manufacturing patent-expired painkiller naproxen, which when he started out had over 20 contenders. Naproxen accounted for about 20 per cent of the company's sales in fiscal 2008.

It has not happened overnight. By his own admission, Divi was an average student and sometimes ran out of money to pay his fee. Even after he split with Reddy, "he took 10 years building contacts in the global pharma industry", says one analyst in a Mumbai brokerage. "His performance has taken off in the past three years." Clearly, Divi himself is proud of his achievement, boasting that his scientists can take "one look at a patent and know what not to do" while others are still looking for short-cuts. Even now, he is careful about hiring — he does not like to poach from competition fearing that it will ruin his company's "culture".

Industry watchers say one of Divi's strengths is focus — while peer companies went all out acquiring contract manufacturing units in the West at fantastic valuations, Divi chose to invest in India. "I believe I can create an asset here in less than six months at nearly half the cost that it is available today (in the West)," he says. "Why waste precious resources?" He has stuck to making bulk drugs (which are formulated into finished medicines), and not diversified into the final product. Jayaram Chigurupati, CMD of biotech firm Zenotech Labs in Hyderabad, is someone who has observed Divi closely. Chigurupati says Divi's biggest strength is that "he never competes with his western customers" unlike others such as Dr Reddy's, which also has its own finished dosages business that sometimes even challenges patents of innovators in court.

This single-minded pursuit has also helped him work within his means. Unlike peers who have raised significant debt, Divi's debt-to-equity ratio is 0.1. "We expect the company to continue with its policy of focusing on organic growth," says an October report by Motilal Oswal. "Hence, it is unlikely to dilute equity or raise significant debt in the near future."

Today, where many his age would be planning retirement, Divi is raring to go. "The man is a workaholic," says Chigurupati, who calls him a "role model". Divi begins his day with a brisk walk and a frugal South Indian breakfast at 7:30 am before heading to work. Twelve hours of work is compulsorily followed by an hour of Yoga. He counts himself lucky to have his extended family of 100 members, including siblings, nephews and nieces, with whom he gets together frequently in Visakhapatnam, where he maintains coconut and mango orchards. Some of them are in business with him.

Today, says Divi, he is happy, and at peace.

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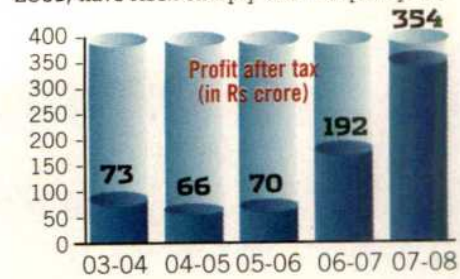
ORGANIC GROWTH

Profits of Divi's Labs, which went public in 2003, have risen sharply over the past years



Source: Company's Annual Report

MURALI DIVI, 57

EDUCATION

Is a postgraduate in pharmaceutical chemistry from the College of Pharmacy in Manipal, Karnataka, and doctorate in the same subject from the Kakatiya University of Andhra Pradesh

CAREER

Worked in the US between 1977 and 1984 in pharmaceutical and chemical manufacturing companies Fike Chemicals and Schulkill Corporation

Co-founded Cheminor Drugs and Globe Organics to manufacture pharmaceutical bulk drugs with K. Anji Reddy in 1984

Left Cheminor in 1990 to start Divi's Research Centre, which he later renamed Divi's Laboratories

'We have big ambitions'

–Ronald De Jong

Senior Vice-President and CEO for emerging markets, Philips Healthcare

THE ECONOMIC SLOWDOWN ACROSS THE GLOBE **is taking its toll on the consumer electronics industry. Royal Philips Electronics, a leading global player, is no exception, but it remains bullish on its India prospects. It has completed the acquisition of two healthcare companies — Mumbai-based Meditronics and Alpha X-ray Technologies — for undisclosed amounts. Ronald de Jong, senior vice-president and CEO for emerging markets at Philips Healthcare, speaks to Noemie Bisserbe about the company's global strategy and its expansion plans in India. Excerpts:**

Q: How important are emerging markets to Philips' global strategy?

A: Emerging economies are important for Philips not only because they are big markets in their own right — as 85 per cent of the global population lives in emerging markets — but also because many new business models and new products find their origin in these markets. The five acquisitions that we have done in emerging markets in the past two years gave us access not only to local distribution networks, but also to an excellent work force, R&D and to a supply base.

Q: In terms of revenues, what share would the emerging markets represent?

A: For the corporation at large, around 30 per cent of the revenues are generated in emerging markets. We expect this share to grow further. Our healthcare business in India grew by 21 per cent in 2007, faster than the industry. We are shifting resources

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Fast Facts

Total Revenues
€26.79 billion in 2007

Employees
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Healthcare Business Revenues
€6.47 billion

Employees in Healthcare Business
32,500

Employees in India for Healthcare Business
Over 300

to emerging markets because we expect that a big part of our future will take place in those markets. So we are actively also working towards that.

Q: Today, are the company's revenues growing faster in emerging markets than in the US and Europe, and have you reallocated some resources from there to emerging markets?

A: Yes.

Q: Where does India stand in this strategy?

A: We have very strong ties with India. We started operations in India at Kolkata in 1930 under the name Philips Electrical (it was renamed Philips India in 1957), with a staff of about 75 people. It was a sales outlet for Philips lamps imported from overseas. In 1938, the company set up its first Indian lamp-manufacturing factory in Kolkata. After the Second World War in 1948, we started manufacturing radios. A second radio factory was established later near Pune. India is important to us. It is a market with a huge population — that in size should pass that of China in 2030, and the Indian healthcare technology market could be worth more than $254 million by 2012. India is also a strong base of know-how, a strong base of resources. Our innovation campus in Bangalore (set up in 1996) where we have more than 1,000 engineers, services our global businesses.

Q: What was the rationale behind the acquisition of Alpha X-ray Technologies and Meditronics?

A: There are a couple of reasons. Philips Healthcare has traditionally been strong in the high-end premium range of the market. We wanted to complement our product offering in India with products that are more value-priced and we wanted to do it inorganically. Today, we import a lot of products to India. In India, in the cardiovascular segment, for instance, the demand is very different than that of the West. It is for products with more basic functionality and that are value for money. For X-ray machines, about 20-22 per cent are imported, so if you do it locally, it is a great advantage. We are trying to capture that value. Over time these products will be marketed under the Philips brand. On the other hand, for the acquisition of Alpha in the cardiovascular market segment, the clear plan and ambition is also to export products from that company first to other emerging economies, and probably in the longer term tc mature economies as well.

Q: Have you disclosed any figures about the price of the acquisition? Or the size of the two companies?

A: No, not in terms of revenues. However, what I can say is that Meditronics employs 150 people and Alpha about 60. So with these two acquisitions, we have added 210 people to our workforce in India.

Q: What are the company's expansion plans in India?

A: We have big ambitions. We are planning to increase our workforce to reach out to tier-II and tier-III cities in a bigger way, to step up marketing efforts and strengthen our customer support services. We have a clear game plan to grow our business in India considerably over the next two years, and we expect revenues for our healthcare business to reach 100 million euros beyond 2010.

Q: How many people are you planning to add to the workforce to achieve this?

A: As already stated, we are adding 210 with the two acquisitions.

Q: Are you looking at new acquisitions in India?

A: Yes, we are constantly looking at companies that could complement our portfolio.

Q: How is the financial crisis affecting the company's growth strategy?

A: There is a lot of uncertainty in the global market and we are not the only company that is affected. We have a strong balance sheet and a portfolio of activities across several industries, many of which have been less impacted by the economic downturn such as, for example, the semiconductor sector. We have and we are focused very much on margin control, pricing and cash flow. In that sense it is a nuanced shift of priorities. It does not affect our basic strategy.

Q: What concrete steps has Philips taken to cut costs and optimise margins? What about global operations?

A: If you are referring to lay-offs, no, in India, we aren't laying off anybody. We are a very big international corporation and we need to manage our cost base, and sometimes we also need to reduce workforce in some businesses. There is nothing new in that.

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● INDIAN EDITION

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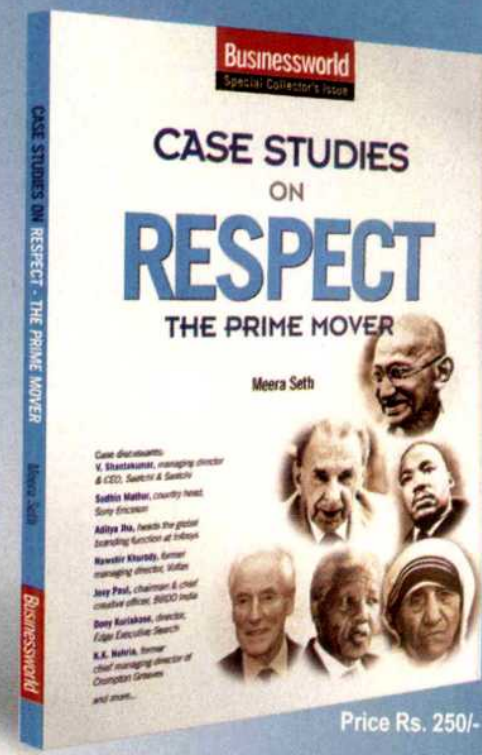

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It Is A Matter of Degree

"Now that you have an MBA, you will never be as successful as me!"
- Larry Ellison, co-founder and CEO, Oracle Corporation

by meera seth

NAMAN KAK WATCHED THE PRESENTATION FROM the last row in the AV room. Way ahead of him sat the sales and marketing team on one side; on the other sat the special projects team comprising Kunal and Angad but closer to managing director Ajit Alva, along with the small coterie of artists and layout designers.

To know what was going on would be difficult to tell, going by the goings-on. But if one removed the anger, the arguments, the protests, the groans... then one discovers that Hubber India wanted a virtual tour (VT) to be developed and uploaded to their company website, that such a need had been voiced by the sales teams seven months ago, that what was being presented by Kunal was being rubbished by them as being "so way off the point", so that the two sides were angrily yelling over what set a company apart for its customers: the products or the manufacturing facility or the employee welfare?

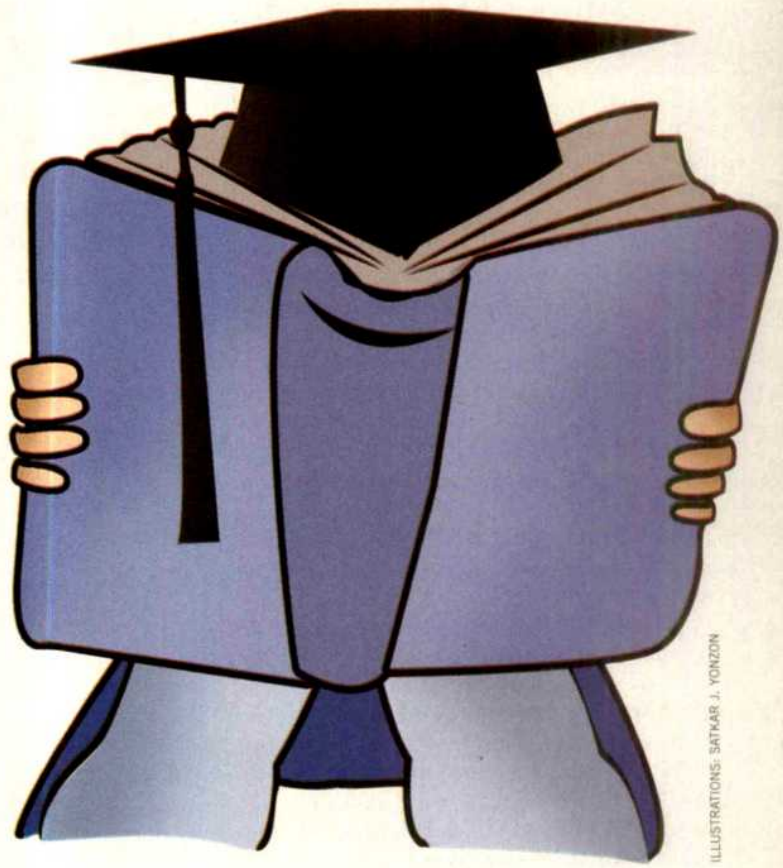
And just when the sales manager Anuj Sud said angrily, "*Arre baba*! What is the blooming objective, dammit," Naman decided he would need that coffee which his doctor had said, "Only if it will kill you to not have it."

Naman ran the mentoring cell at Hubber India, manufacturers of home appliances, cooling systems and refrigerators. Late last year, during a workshop, the VT idea came up and MD Ajit Alva wanted Naman to work closely with the management trainees (MTs) who he was planning to deploy in the development of the VT. "They are the best MBAs in the market," he said. Naman had been a bit taken aback. His own small team would handle this efficiently he knew; but the presence of MBAs in this worried him and he said as much to Alva.

"Maybe we are using a sledgehammer to kill a fly, Ajit. You don't need MBAs on this, the communications team will take the briefing from Anuj and they will do this in no time." But Alva was reluctant. As far as he knew this job needed MBAs.

That was March. Seven months had rolled by spending time and money when it should have taken three weeks at best. And during these seven months, what happened is captured partly through Naman's diary notes.

So, Naman sent to Alva a framework that would define the essential structure of the VT.



ILLUSTRATIONS: SATKAR J. YONZON

Alva in turn sent it to the MT team ('Kunal-Angad' as they came to be known jointly) and asked for an Excel sheet (xls) that incorporated these variables and how they were represented in the industry, identifying pictures to go with it, finalising the accompanying text, etc. Meanwhile, the sales team developed a detailed storyboard and sent it to Kunal-Angad. When Alva saw it, he began to chisel the 'storyboard', adding new elements. It was important to him that people should see Hubber in a certain light and take

away an impression of being great employers. So, he wanted the swank gym highlighted and showcased. Likewise, each team zoned in on their specific 'I-likes' and thus the elements gained mass.

The entire blueprint — 47 pictures and about 162 lines of accompanying text — went to the sales team. Anuj Sud scratched his jaw when he saw the changes made by Alva. He did not like the direction the storyboard was taking. Why had Alva added the clip of 'The oldest walnut tree' in all this? Clucking, Anuj said, "What has it got to do with world-class cooling systems and refrigeration? Project the product, project the product! Put more descriptions of the product; and user testimonials; get more detail in, shoot the refrigerator half open, half closed... depth, freezer capacity, show the range, emphasise the colours, and features please, features!"

Naman's fears were validated: the VT had become a product catalogue.

Next, the sales team wanted it structured. They wanted the narrative to be in chapters or buckets like: "Facility", "What We Do", "How We Deliver", etc. Pictures were changed, text rewritten and the sequence of the narrative altered. Sales not only put products ahead of the company facility, they scoffed at the MD putting in stuff like 'Company Vision', which to them was an internal thing. ("It excites the board, but not customers!")

Then the whole document went back to Alva, who took one look and decided many elements were missing. "'What Hubber does' should precede all else", he declared. "And yes, our world-class facility," he told Angad; "Upfront list all our certifications, the partners we work with, our offices across the world, the deep technology expertise that exists in-house and yes, in a box we must list the technologies that we are renowned for."

His whole angle of vision being collaboration, partners, etc., he put in the names of Hubber's original equipment manufacturers (OEMs), partners who provide the technology inputs and key dealers. Soon he was thinking of the third party suppliers (3ps), of washers and linings; Alva took great pride in the quality processes he had installed at the 3ps; "We must showcase these," he said proudly.

Presently, Alva was thinking of happy and healthy employees. Hubber served decaffeinated coffee and was a smoke-free office too. Alva was a very caring employer and devoted a lot of his thinking to their well-being. A mention of the training and development programmes was important he felt. To Angad he said, "Why don't you create a fresh requirements document (RD)?"

Then the photographer came and shot new pictures in accordance with the script. Alva saw them, but wanted to know why certain things were not shot; for example, he wanted to show a power back-up — in order to show that there was never any down time because of power loss; he wanted to show the boardroom because it was awesome; Naman's dairy: but it is not the kind of 'awesome' that can be captured — automatic doors, dimmer lights, a backlit podium, plasma screens and video conferencing with the global offices. When told that these were not in the script he asked to include all these elements in the storyline, and the team went ahead and did just that!

"Naman was now beginning to see light. He felt the VT team were so theory driven, that they didn't once stop and think that even theory came from practical experience."

Everytime they got into a jam with the logic and logistics of the VT, Kunal and Angad turned to Naman for support, like they did after Alva asked for a fresh RD. "What's it?" asked Naman, and Kunal said, "Boss, for Rs 55,000 I am being asked to work like McKinsey. What is the need for all this?"

Now what had Alva asked for? One would have thought he had asked for a global study of refrigerator manufacturers' compensation practices. This is it! The funny thing is, they even have a flowchart template in their heads of what any task should 'typically' involve, so that, they are never doing anything experientially. To tell you the truth, if Alva had been a Harvard MBA, they would be running on the double to do his bidding. But he is from some smaller B-school in India; that explains the debates.

What surprised Naman was the slow meandering route a simple VT was taking. So he said, "I thought you would be concluding the research by now; where are you stuck?" Kunal clicked open an xls on his laptop that analysed what 20 other companies were doing by way of VTs, to generate a 'Best Practice for a Virtual Tour' template.

The xls examined predominant colours used for VTs; video or stills? Average length of text used with each picture, font type, are pictures with text or are they shown separate, does the VT have customer endorsements or company awards? Does it show CEO office and external building? Does it allow you to download the tour? Does it have graphic elements? And other such parameters.

They figured out that if a particular item was seen across all 20 as a common behaviour, then we too should have it; so, we had some conclusions like: our VT should be in English and other such obvious stuff. But because something appeared just once among the 20, they chose to ignore it and could have potentially missed the only innovation across the sample VT! Ergo, a thing was relevant if it fell out of an xls!

Naman was now beginning to see light. He felt the VT team were so theory driven, that they didn't once stop and think that even theory came from practical experience. So that the moment Alva asked for a VT, they were already browsing the Net to develop best practices. "Why do you need to look at what others are doing?" he asked. "This is not about setting a practice in place. It is

purely about what you want your consumer to know about you; what you consider very valuable, which differentiates you from the herd... so, keep it all simple, very simple."

For example, one of the companies had a link to a product demonstration. And because only one out of the 20 companies used product demonstration, it was considered 'not a perceived advantage'.

Naman looked down at his shoe to calm himself, then said, "Maybe we should think about why that one company has used demo?"

What I got was some intense Kotler-type *gyaan*. And this was not the first time. I have been subjected to completely random reasoning that comes out of text-books even in the face of evidence that begs mankind to think on his feet! The problem, as I see it, is that there is nothing to cue to them that its time to abandon the text-book and start applying common sense.

Naman had mulled over this. Alva was a capable CEO. When it came to refrigeration dynamics, R&D, customer service, Alva was tops. Likewise Angad and Kunal were good MBAs when it came to number crunching, analyses, presentation, etc. But when it came to putting together a tool that would enable customers know Hubber the manufacturer of world-class goods, all three had derailed.

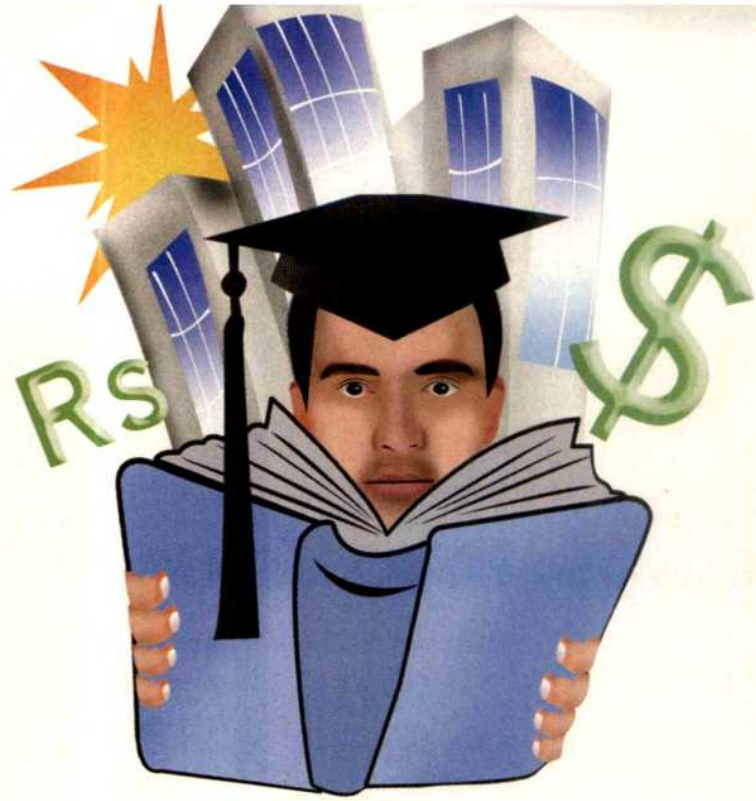
Naman decided to flip the question on its side and asked instead, "Ok, ok, why should we not use a product demo?"

Angad said, "See, Sanyo is not doing it, right? Samsung — the leaders, they are also not doing it? Then why Hubber? It is sixth on the charts!"

Naman studied his shoes some more, pleased over how much calm they brought him. He now said, "A refrigerator is a hi-touch product; if you do not let them touch it, it will not sell, correct? Now when a customer is at decision stage, won't a product demo be the closest she is coming to touching? And Indians are completely about touching-feeling, *nirakhna-parakhana*. Samsung can afford to even refuse to show you the product that is how much brand pull they have! We are way down the rank charts... we have more convincing to do I would imagine?"

But Kunal quoted Maslow. He said, "Our target groups buy our products for aspirational purposes. Our products are priced higher. With that target group we don't need touch and feel; they can go to the website where they can check features! And as Maslow suggests, people who are looking to satisfy aspirational needs don't need to spend time evaluating features, as they would already have two-three refrigerators back home!"

Naman looked at the young men intently and Angad mistook that for interest and added, "Also, let us bear in mind, we are not selling refrigerators, but we are selling 'Ability to spend time with families together'! So people are looking for features! Let us develop a matrix of what we provide and what others don't! This will save them product enquiry and research."



"Angad and Kunal were good MBAs when it came to number crunching, analyses, presentation, etc. But when it came to putting together a tool that would enable customers know Hubber, they had derailed."

Alva feels compelled to hire according to 'best practices'; he suspends judgement when talking to an MBA. The poor MBA can be talking utter rubbish. But the CEO would not think, 'boy, this is rubbish'. He ought to be able to tell that he needs a creative person for a certain task and keep his mind 'blue sky' for some moments. And there are other moments when he needs an MBA and should keep his mind 'crowded xls'.

Some weeks later, before the VT could be created in Flash, a 'final' document went to Alva. Alva was not happy again. He was an out and out quality guy: process, systems, methods — these defined Alva. He believed that Hubber was successful because excellence had become a habit — a function of systems, quality processes. But what he saw in the script was not adequately powerful.

"What is all this?" he said. "We don't get to see the grandness of our facility and why are we talking about our quality process and then showing people discussing stuff at a table? How is this quality? Please describe what you show in the pictures, instead of giving all this deep *gyaan* that no one is interested in."

God knows why it is grand. "Grand" has different meanings for different people. To some it is the quality of the toilets which have big spaces, are set in atriums and have gardens; to others it is the huge steel-and-glass building they are in; to others it is the reception area and its granite floors.

One day recently, Kunal came to Naman and

said in halting tones, "I am confused. First the MD wanted 'what we do and how we do it', then he wanted all that removed and just the large facility be shown in beautiful colours; first he wanted to show the beautiful computers we have that look like a lot of technology was being deployed, then he wanted these removed as everyone else has them... then he wanted vision and mission to be upfront then changed that to facilities then changed that to training and processes...!"

Naman nodded. "I understand; and I think that's probably how Mr Alva feels. He is so closely linked to facilities and quality; he may be finding it difficult to achieve a balance. May be a good idea for you and Angad to sit and understand why he is changing his approach.

Kunal: But he keeps on changing his briefs.

Naman: It is his company... allow him that much.

Angad: See, Alva is an engineer and hence good for operations, R&D and stuff. But marketing... what we need is to understand the consumer; what we need to build is a brand and have a good research profile.

I know they will not say this to Alva. MBAs will not say a word that would affect their careers. Their existence depends on companies wanting metrics. It is like this: you can call a painter home and he will start with the north wall of the room and go stroke by stroke and tell you that between 8 am and 5 pm, he will have done so many sq. ft of wall and therefore it will take him X days to complete the room. Now, an MBA can examine the way the painter works, look at the paint availability position, find ways to not paint portions and so on and he is great value. But if the painter happens to be Picasso, who doesn't even turn up at 8 am, the MBA doesn't have a job! The MBA is afraid of what he cannot capture in an xls and crunch it. He does not understand creativity and how to break it down into elements and then put a value on those elements. He sees a person and qualification, experience, quality of paint (ISO, enamel, etc.), condition of wall, sq. ft to be painted. Notice, all these elements have metrics. And as long as they have numbers and quantities to deal with, they feel connected.

Equally, the marketing and sales team were afraid of telling Alva that they need a tool to sell, not a production to glorify the company and its 40-year history.

The CEO thinks that going through the 40-year history of the company, starting with the time when man used mud pots to cool water is worth narrating. It shows them as pioneers. The sales team thinks that today's needs have nothing to do with this history. Today, it is design, colours, they need to talk about and not waste time explaining people what Hubber did in the year 1954. Bottom line: CEO wanted a VT because all his competitors had one. Besides, how many VTs would Alva examine and how? And what was he going to learn about creating a sales tool?

"MBAs can't be really imaginative; I think young kids enter the portals of B-schools where there is some kind of acid wash whereby in the two years, they scrape out all creativity and imagination."

All we needed to start and end this exercise was the top five differentiators for 40-year-old Hubber. So why does not anyone know what sets us apart, after 40 years of being in the business? Because it is not popping out of an xls, that is why!

Yes, I am mad as hell at the MBA who looks at a market and tells me: "I examined 30 biscuits and all of them were made of wheat flour, were baked, and used salt and sugar, except one that has some brown stuff in it called chocolate with a heavy vanilla flavour. My finding tells me our biscuit range should have wheat flour, should be baked, use salt and sugar. Only one guy has chocolate with vanilla and he is the outlier — let us ignore it." Trust the guy with the MBA to have missed the innovation in biscuits.

Today I have been witness to a serious fact: MBAs can't be really imaginative; I think young kids enter the portals of B-schools where there is some kind of acid wash whereby in the two years you are there, they scrape out all creativity, imagination, and worse, replace that with an obsessive dependence on xls and the like. Just try taking away the xls and computers... excellence loses its foundation. Those are tools alright, but the core of excellence, of quality has to reside in the mind, and that habit, that ethos, MBA takes away.

When he got home that evening, Naman was annoyed and drained. His 22-year-old son had left some forms on the table for him to study. These were applications to a B-school. A low yelp escaped Naman's throat as son Prasann walked in. "Hey dad... oh... you look strange. What is it?"

Naman: No, not MBA, son; not MBA.

Prasann: Not MBA?

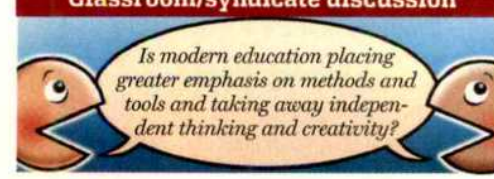
Naman: Not MBA; MBAs, I see, are more inclined to analysis than to creativity. That is their training. They wire them like that. They cannot zero-base their thinking. They need trends, statistics, past experiences to pole vault into the future. But you are a great kid... I am not letting anyone rewire you.

Prasann: If not MBA, then what, dad?

Naman: Learn Tai Chi; You at least get a new skill. An MBA degree simply reboots your system!

casestudymeera@gmail.com

Classroom/syndicate discussion



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Degree Of Relevance

The present education system could provide the kiss of death for entrepreneurship

TWO THINGS STAND OUT VERY CLEARLY AS RESPONSIble for the mess that Hubber finds itself in, on the virtual tour (VT) production. First, there are a number of unstated prejudices and stereotypes in peoples' minds about those they work with, that are influencing action. The second, and by far more important, is the complete abdication of responsibility on the part of the CEO. What should have taken three weeks is seven months in the making and counting.

Let's look at the first issue. Those who are not MBAs believe that MBAs are templated, lacking in practical experience, non-experiential and unable to identify creativity even when it is perhaps served up to them in terms of stand out innovation. On the other part MBAs believe that trends, statistics, past experience, generalised best practices, etc., will help get the job done.

The CEO himself is unsure of what he wants. Both the management trainees Kunal and Angad complain about the fact that he repeatedly changes his mind and this confuses them. Therefore, despite the analysis, the Excel sheet comparisons, et al., there is still no closure on the VT. Amazingly, no agreement can be reached as to what sets Hubber apart from its competitors, even with 40 years of history, unlike the upstart competitors such as Samsung, etc. One would assume that this consensus would have been reached at the first coordination meeting.

Thrown into this cocktail are the sales team, who believe that the VT need be nothing more than a product catalogue and sales promotion tool. They still want to know what the objective is! The fact that Hubber has infrastructure, R&D, quality certifications, global partnerships, history and a culture doesn't matter to them.

The MBA tells Naman that he knows Hubber's customers better than they apparently know themselves. As such, based on Maslow's hierarchy principle the customers actually require no product interaction, but instead, satisfaction of "unstated aspirational" needs, etc!

While very well intentioned, our CEO Ajit Alva seems unable to get the best out of the teams deployed on to the project, viz sales, management trainees, mentoring, etc. His task is not made easier by the fact that they believe, that on the one hand his core competence is refrigeration, R&D processes, etc., while on the other hand secretly disparaging his B-grade business school degree — part of their stereotyping. His shortcomings are exacerbated by his inability to allocate tasks based upon "creative needs" of the organisation vs the Excel sheet analytical requirements that perhaps are important too. It does not help that his own sales/marketing team hesitate to put to him their actual views.

The solution should be simple — the CEO lays down exactly what he expects from the coordinated efforts of his team. This output is based on consensual agreement as to what are the desired outcomes required from the platform being considered, i.e. the VT. The output is reviewed against agreed standards and implemented within pre-determined timelines. By this process even if some mistakes have been made by omission or commission, seven months would not be wasted — corrections can always be made post implementation, based upon real-life learning.

However, what actually transpired is something entirely different — "Pay attention to how there are now three different boats, all sailing in different directions, all manned by MBAs!

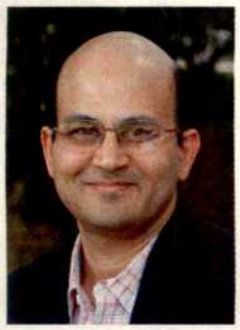
Part of the problem with regard to educating our business managers, perhaps could lie in the make up of an MBA business school. These are accredited by organisations consisting of amongst others, Ph.D-holding, non-businessmen. When the business school recruits faculty, it is rarely business experience that is relevant. They do not approach retired businessmen who oversaw the creation of value to consumers, since businessmen are mostly too busy to have had the time to do Ph.D. So, when you go to a business school to become a certified expert in business, you may be placing yourself in the hands of persons who have never actually run a business.

Sometimes it makes one think about whether these bright MBA-holding experts understand that the basis of profitability is customer satisfaction. Not so, if they got where they are, only by performing in a controlled environment that was designed by people who personally may have never met a payroll, or who have spent their entire lives writing academic term papers. The most relevant example of this is the debacle in the financial markets today.

The MBAs that excel are those that continue to learn on the job with real-life experiences adding value to their degree. The present education system therefore could be providing the kiss of death for entrepreneurship. Further, is it better as a student to be influenced by a hands-on-manager, who has prospered in a company, than by professors of business administration? Naman perhaps thinks so as he counsels his son on a proposed future as an MBA.

K.S. Parker is the CEO of Acme Cold Chain Solutions. He has worked in the past for PepsiCo India Holdings and Bharti Del Monte

Don't Blame MBAs



Young MBAs need guidance from bosses and mentors to show their creative side

IT'S EASY TO BLAME YOUNG MBAS FOR A HOST OF things — raw ambition, job-hopping, a mercenary attitude, and, as in this case, an absence of creativity. But, is it possible that they are victims of organisational systems that fail to mould them into professional managers?

The situation at Hubber India lends credence to this hypothesis. Kunal and Angad are young MBAs, trying their best to develop a virtual tour (VT) of their company. But they are caught in the crossfire between three power centres — the MD Ajit Alva, sales manager Anuj Sud, and mentoring cell (and communication) head Naman Kak. These men have conflicting views on several key issues related to the VT project — What is distinctive about Hubber? What is Hubber's core competence? Why do customers buy its products? And what additional information about the company, its products, and processes, would be valuable to people who visit the company website?

Young professionals are more likely to be creative if they have a clear objective and expectations set before them. And, that is the job of the leadership. Kunal-Angad's lack of creativity is an outcome of a lack of leadership at Hubber India.

Naman Kak is a poor mentor. Many young MBAs leave companies because they are unable to make sense of the 'messiness' of organisational decision-making. They attribute what they can't comprehend to 'organisational politics' in a pejorative sense and seek greener pastures. While case study discussions in the MBA classroom seek to simulate such situations, MBA students find it difficult to relate to such discussions since they lack experience. Therefore, in the early years of an MBA's career, bosses and mentors play a critical role in helping them understand how organisations work. But Kak fails to play this role.

The most unimpressive MBA at Hubber is MD Ajit Alva. He seems to believe that everything in his company is great, but this is belied by Hubber's sixth position in the marketplace. His focus on operational excellence appears to be at the cost of the market orientation that is required to succeed in the white goods business. And, clearly, he has failed to give direction to the VT project.

Finally, sales manager Anuj Sud remains stuck in a product orientation.

Kunal-Angad's effort to compare the VTs of other companies to identify what Hubber should do is commendable. Not for any theoretical reasons, but because this is another important input into the process of determining what elements Hubber's VT should contain. Just as product development 'best practice' would require companies to do a detailed assessment of competitors' products and strategies before deciding on what features to include in a new product, benchmarking helps in communication practice. Of course, senior management would still have to take a final call as to what degree Hubber's VT should resemble that of other companies, or to what extent it should stand out.

Can MBA programmes do something to deprive sceptics like Naman Kak of the ammunition to shoot down MBAs? Globally, MBA programmes are caught in a bind. On the one hand they seek the academic rigour that would put them on par with other graduate programmes. In keeping with this, business schools have employed the same research-based norms for faculty recruitment and advancement that are followed in traditional academic departments. Yet, much of this research may not be of relevance to MBA students. On the other hand, business schools seek an identity as professional schools preparing candidates for the rough and tumble of business. Consistent with this, they offer workshops on communications, interpersonal and team-working skills, negotiation skills, and 'leadership.' The faculty teaching these courses are often adjuncts from the world of business who don't meet the norms of the tenure process. The challenge for business school leaderships is to ride both these horses, and only some (notably Northwestern's Kellogg school) succeed.

Indian business schools face additional challenges. With a large proportion of the entering MBA class lacking work experience, classes in Organisational Behaviour don't find a receptive audience. Though alumni returning to campus emphasise the importance of such courses, try telling that to a 20-year-old MBA student!

And, finally, under what circumstances are people most creative? Research by Harvard Business School's Teresa Amabile shows that people are most likely to be creative when they are intrinsically motivated. Such intrinsic motivation comes about when there is a match between an individual's expertise, interests, approach to problem-solving, and the job she undertakes. As long as individuals make career choices driven largely by societal and peer expectations instead of an objective assessment of their strengths and interests, and as long as companies assign jobs and tasks without attention to people's interests and aspirations, creativity will be the casualty. It's unfair to make MBA programmes take the rap.

Rishikesha T. Krishnan is a Professor of Corporate Strategy at IIM-Bangalore. He is a former Chair of IIMB's MBA Programme.

In Vogue

TREND

Time for

AP

Saina, six-inch heels and netbooks are in, whil

BEER

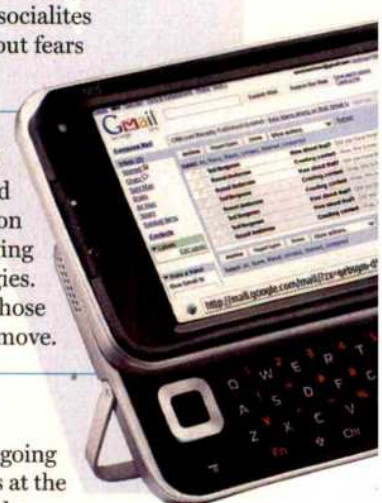
Any guesses why this so-called 'working class' drink is in? Well, it is recession time, and what better way to drown your woes than in a cool glass of beer. Youngsters still don't mind spending their money on pints.

FARHAN AKHTAR

He laughed in 2008, and he rocked in 2008! Reversing the trend in Bollywood, this director turned a full-on actor for *Rock On!* with panache. He can be seen schmoozing celebrities these days on his television show *Oye! It's Friday!* He is now hoping to find — *Luck, By Chance.*

SIX-INCH HEELS

You might find being perched atop these precarious, but life certainly takes on a different hue when viewed from this height. These are the contraptions that give snooty socialites their fetching gait. And who cares about fears as earthly as a backache then.



WIMAX

A technology that gives broadband speeds of 75 megabits per second on laptops and netbooks is challenging robust wireline technologies. Becoming a must-have for all those executives on the move.

REUTERS

SAINA NEHWAL

The new poster girl of Indian sports is going in one direction, up. From the quarters at the Beijing Olympics to the semi-finals of the Masters Series, she has moved from being a promising junior to one among the Top 10 women badminton players in the world. She is a contender for the pinnacle in 2009.

change

ıelodrama and hip-hop are out *By Team BW*

AMIT VERMA

WINE

It is snooty, it is classy and it is daunting. With the options of picking the right bubbly becoming more and more complicated — vintage, vineyard, variety, all taking a toll — consumers have decided to take a break, with a beer.

RAM GOPAL VERMA

His *Aag* cooled down sometime ago, but not before it had singed many in its wake. His attempt to find inspiration from a fire — of a different kind — at the fag end of last year, not just cost someone his job, it also left people burning. With? What else, rage!

FLAT SANDALS

They are practical, no-nonsense and boring. They don't allow you to sway your hips — useless for mankind! Plain Janes may find endless virtues in sporting them, but cool cats will not touch them with a barge pole. Wear them, but only if you don't mind your reputation going flat!

WIRELINE

Fixed line phones, already under threat from mobile ones and desperately hanging on to broadband for their survival, are set to lose that lifeline too. Wimax is set to ensure that these apparatuses may soon have only antique value to boast of.

REUTERS

SANIA MIRZA

Shut out of the game due to a wrist injury for the past five months, Sania Mirza faded out as the blue-eyed girl of Indian sports. Out of the list of Top 100 women tennis pros, she will have to start all over again at the 2009 Australian Open.

MICHAEL CLAYTON

STAR MOVIES

JUNO

THIS YEAR COME HOME WITH THE STARS

NATIONAL TREASURE
BOOK OF SECRETS

HARMONICA

Popularly known as mouth organ, this musical instrument used to be *de rigueur* in old Hindi films. Now Arijit Mukherji, finance director with a Gurgaon-based company, has brought out an album of Kishore Kumar songs played on it. Blast from the past.

AP

ARVIND ADIGA

After *The White Tiger*, this Man Booker Prize winner is cashing in on the second book syndrome — the disquiet fuelled by raised expectations, after a first novel comes from nowhere and defies all odds and competition.

DRAMA

We thought *saas-bahus* were out, along with the *saas* of them all — Ekta Kapoor — but they are not. *Ma sa*, the grand *saas* in *Balika Vadhu* still revels in torturing her grand *bahu* Anandi. But drama still sells and this serial is watched avidly by everybody, including Abhishek Bachchan.

AP

METAL

For the uninitiated, turning up the amplifier and blasting the ears, with extreme distortions, is music for the lovers of hard rock and metal. Bands like Disturbed, Guns N' Roses, Slipknot, AC/DC, Kid Rock and Metallica all released successful albums in 2008.

NETBOOKS

The trend started by Taiwanese company Asus sometime ago, strengthened in 2008. Biggies such as Sony and Samsung are now planning a major push in this while some like Acer have already done so. These little books are bound to get you hooked on to the internet.

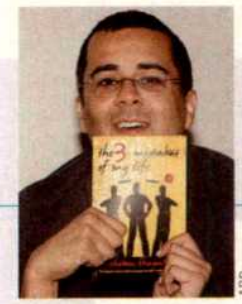
In Vogue

FLUTE

Hariprasad Chaurasia is one of its last living exponents. With the magic of his partnership with Shiv Kumar Sharma — which gave soulful music in many a Bollywood film — unlikely to revive, the flute may have to wait endlessly for a modern-day Krishna to get tuned in once again.

CHETAN BHAGAT

His *Three Mistakes of My Life* had done well last year. Things were great until he gave nod for *Hello* — a Hindi movie based on his book *One Night @ Call Centre* — which became his fourth and biggest mistake.



ABP

MELODRAMA

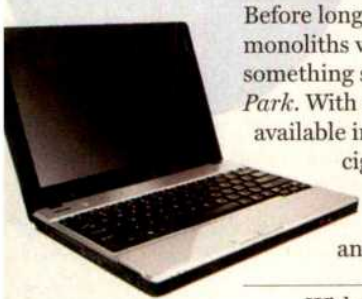
The 'forcible' demise of *Kyunki Saas...* in 2008 proved that over-the-top interactions in rich families, where *bahus* sport 2 kg of jewellery and sleep in Kanjeevaram saris, were no longer fit to keep viewers hooked. Melodrama (read thunder and lightning) by way of background scores and three-shot close-ups, is out for sure.

HIP-HOP

Don't let Hard Kaur and Akshay Kumar chin-chooing to hip-hop beats in *Chandni Chowk to China* fool you. A look at the Billboard Top 200 would tell you that hip-hop albums are falling off the charts. Jamie Foxx seemed to be the only hip-hop artist in the top ten charts, right at the bottom. Also known as rap, this African-American music, which has seen noted exponents in Bally Sagoo, Jazzy B and desi dude Baba Sehgal, seems to be losing its ability to engage audience with rapt attention.

BLOOMBERG

LAPTOPS



Before long, these black bulky monoliths will appear to be something straight out of *Jurassic Park*. With disk drives now available in the form of small cigarette pack-sized cards, who cares about storage space and CD drives?

With inputs from Feroz Ahmed, M. Rajendran, Vishal Krishna, Mahul Brahma and Shalini S. Sharma

Changing Phases of Banking Practices

The history of banking is closely related to the history of money; the first banks of the world were probably the religious temples dated back to the 3rd millennium B.C. As trade grew, merchants were on the look for ways to borrow money to fund their expeditions. This situation demanded systematic financial practices thus the concept of banking began to shape up. The history of modern banking in India began towards the end of the 1700s. The Bank of Hindustan was the earliest to be set up in 1770, by the British in India. The Swadeshi Movement witnessed the start up of banks owned by Indians. Passing through various phases, banking sector has come a long way to its present stature.

South Indian banks have played a pivotal role in putting India on international banking map; many commercial banks are headquartered in the South. Unquestionably, the contribution of these banks to the growth of the country's economy is very significant. Banks have been amply supporting financial needs of agriculture, industry and businesses and host of other financial needs of people. In the post-liberalization period, most of the banks have shed their regional character and achieved a pan-India status.

The banking industry in South has undergone metamorphosis owing to the entry of new generation banks. Banking practices are getting better and better every day and the banks have evolved as one –stop- shop for all financial needs. The competition generated, has brought in innovative banking practices and latest of technology, which are growth oriented and very customer centric. Banks are catching up the latest trends and improving constantly to give tough competition to their counterparts with global operations. Interestingly many banks based out of South are on spree of opening overseas branches to facilitate financial needs of Indians living abroad.

In India, there is always a huge business potential in the rural markets and all the banks are now focused towards strengthening their base in the segment. Today most rural parts of the South are now on the banking radar. Many banks, with their innovative loan melas and attractive schemes are attracting more people in the rural sector. While the old generation and local rural co-operative banks with long standing experience hold a fair market share there, the new generation banks are also trying to catch up. Micro Finance Institutions (MFIs) have always played a lead role in rural banking by assisting the rural & semi urban populace with basics of banking products.

With technology is contributing significantly in cutting the hassles relating to cost, time and distance, concepts like core banking, ATM, internet & mobile banking, bill payments and so on, banking has been made simple and easy. Banks have understood the impact of technological revolution and market dynamics sweeping the Industry and have adapted to changes from time to time. Today the banking business model now runs on IT, which has resulted in efficient and enhanced customer services.

South Indian Banks have played a major role in bettering lives of people and are contributing to robust growth of country's economy. South India is always a huge retail market and retail products have become a hit with public. This apart there is a sea of change in the way conventional practices are conducted on a day to day basis. In near future one could expect more business alliances in banking industry and the competition wars will be felt in the remote areas of south of India as well. Reforms and prudential norms are already in place and the Banking industry in the south is already compliant with the new requirements. Many south based banks have tied with non-banking and insurance companies, asset management companies etc to offer value added services beyond banking services. The business volume of South Indian Banks has gone up in the last decade but there are more opportunities to be explored.

The Indian banking industry has proved to the world that it is sturdy and well insulated, while many reputed financial institutions with the global presence have gone burst in the current global economic melted down. Recent interest rate fluctuations have only pushed the banks to fully gear up to meet the future demands. Experts believe that more symbiotic relations among the banks and financial institutions, introduction of a host of innovative need based products could probably put Indian banks on the top of world banking chart. ■

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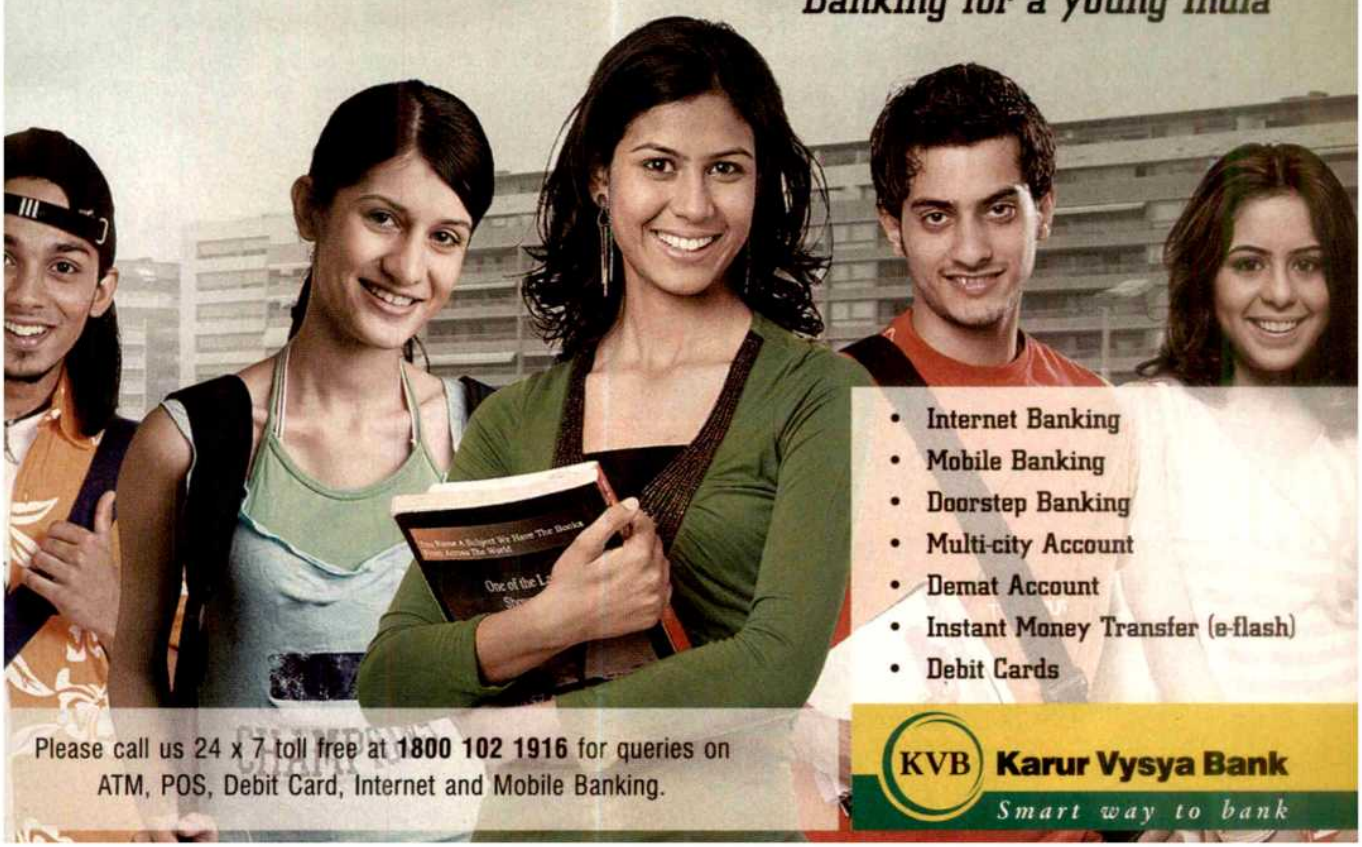

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KVB is one of the early banks that achieved 100% networking of all its branches under Core Banking Solutions and is one of the first banks in the country to implement multiple delivery channels like ATMs, POS, Mobile Banking, Net Banking, E-commerce services etc. The bank was adjudicated the most Efficient Small Bank by Business Today – KPMG and No. 1 Old Private Sector Bank by Financial Express – Ernst & Young for the second year in succession.

The bank has crossed total business of Rs. 2302265 cr. with total deposits at Rs. 13286.11 cr. and total advances at Rs. 9736.54 cr. as on 30.09.2008. The bank's Net owned Funds level stands at Rs. 1190 cr. as of 31.03.2008 and is the first Tamilnadu based private sector bank to achieve the rare distinction of crossing Rs.1000 cr capital funds. The Capital Adequacy Raito of bank is 13.27% as against the 9% stipulated RBI norm. KVB's net NPA ratio is less than 0.25%, one of the lowest in the country. The bank is maintaining a tradition of earning profits. KVB has been declaring 100% dividend for the past four years and in the fiscal 2007-08, the same stands at 120%. The bank has a branch network of 300, ATM network of 301 and there are plans to improve the branch network to over 320 by the end of 2008-09.

The bank has in place robust management systems and is well-equipped to boldly take up the challenges in the industry and emerge as a top-notch one-stop-shop techie financial supermarket. KVB plans to introduce a host of technology-based products and services viz. on line utility payment facility through Billdesk.com for effecting payments for electricity, telephone, water tax, insurance, mutual fund payments, Prepaid Travel Card through ATM cards, POS, e-Commerce channels worldwide, Institutional Fees payment and inter account/card funds transfer facility. ■

Amalgamation of Tradition and Banking – CUB

'The KUMBAKONAM BANK LIMITED' was incorporated, on 31st Oct 1904 as a limited company. In the beginning the bank emerged as a powerful regional bank with the objective of regional development and welfare. Slowly but steadily the bank built for itself a place in the Delta District of Thanjavur. Considering its growth, Reserve Bank of India accorded CUB with the status of a Scheduled Commercial on 22nd March 1945. In 1957, the bank took over 'Commonwealth Bank Limited' and later in 1965; 'The City Forward Bank Limited' and 'The Union Bank Limited' were amalgamated with the Bank. The resultant was addition of more branches to its network. Consequently, the Bank's name was changed to 'The Kumbakonam City Union Bank Limited'. The bank was growing in strength and it was time to look for national presence. In 1987 the Bank was renamed 'City Union Bank Limited'. Taking into account the bank's financial strength, managerial competence and consistent progress, Reserve Bank of India authorized the Bank to deal in International Banking business. CUB is one of the few banks in the country to conduct business successfully for over 100 years.

Keeping in phase with the revolution in Electronic and Communications the bank introduced Core Banking Solution. Today City Union Bank offers services viz. any time banking, Internet Banking, Real Time Gross Settlement, E-Funds Transfer and clearing service, ATM, Bancassurance, National Finsancial Switch, Investment advisory services to name a few.

The bank has a consistent track record of financial performance and all-round growth with uninterrupted profitability and dividend payout through out its 100 years of operation. For the past three years CUB has been growing at a CAGR of 20%. The bank's Net worth as on 31st March 2008 stands at Rs.566.86 crores and the Capital Adequacy Ratio (CAR) at 12.48%. The total business of the Bank amounted to Rs.11768 crores as on 30.09.2008.

CUB has obtained License to function as Depository Participant under National Securities Depository Ltd and as apart of bank's efforts to enhance customer service, soon Depository services will be provided. Mobile Banking will be in place very shortly and more branches will be in operation in the time to come. ■

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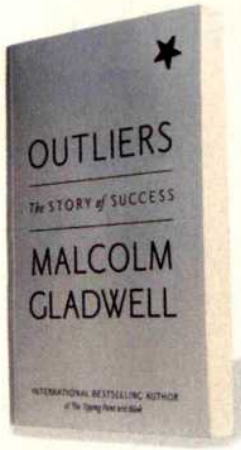


What Lies Behind The Successful

by pierre mario fitter

OUTLIERS: THE STORY OF SUCCESS; BY MALCOLM GLADWELL; ALLEN LANE; PAGES: 299; PRICE: Rs 399

MALCOLM GLADWELL IS BACK WITH HIS THIRD book. And just like the first two — *Blink* and *Tipping Point* — *Outliers* has already reached the top of the *New York Times* best-seller list. Here, Gladwell seeks to understand and explain another set of phenomena — people who achieve extreme success. He calls these people "outliers" because they lie so far outside normal human limits; in other words, a Michael Jordan-esque basketball player or an Einstein-like genius.

Outliers is narrated in Gladwell's now familiar style. He picks an anecdote, mashes it up with esoteric data sets, and then culls out hidden meanings. Then he finds more data sets and equally compelling anecdotes to further his thesis.

In this book, Gladwell lists factors that play lead roles in making people phenomenally successful. The first factor is pure luck. Gladwell seeks to answer why an overwhelming majority of boys on Canadian little league hockey teams are born around January and February. It's actually rather simple. The body of a child born in January matures 12 months faster than that of a boy born in December. So, when ice-hockey teams are picked, the January baby is invariably bigger and faster than the December kid. So, will birth-control pills and condom sales dip in March in Canada from now on? Perhaps.

In a similar fashion, he describes how today's best-known IT firms — Microsoft, Sun and Apple — were all founded by people born around 1955. Another set of data shows why 18 per cent of the 75 richest people in recorded history were all born in the same decade — the 1830s (they were at just the right age when Wall Street, industrial manufacturing and railroads boomed in the US).

But, he says, luck isn't enough. That takes us to Gladwell's second factor — what he calls the "10,000-hour rule". Basically, that is how much practice he believes it takes to master a skill. It is how long Sun Microsystems' Bill Joy took to perfect his phenomenal coding skills. It is also roughly how long the best students at the Berlin Academy of Music spent over many years to gain complete mastery over their violins.

In short, Gladwell says that it takes hard work and practice to get successful. That is not a novel idea. In fact, that is what every mother tells her child growing up. So while the anecdotes are interesting and the writing is good, the book is devoid of any ground-breaking revelation.

However, Gladwell makes you think deeply about the origins of success and about larger issues such as justice and building a fair, equitable society. Much of this comes from one chapter in particular. In 1994, two American teachers, Mike Feinberg and Dave Levin, started a fifth-grade school course called the Knowledge is Power Program (KIPP) for inner-city school children in Houston. KIPP students are not unique by any means. They come from the same 'under-served' families that other inner-city schools cater to. In fact, KIPP does not have any special recruitment procedures, favouring open enrolment. Yet somehow, in a nation where less than 20 per cent of low-income school students go to college, KIPP's success rate is 80 per cent.

Like Feinberg and Levin, Gladwell believes that if the KIPP students are not different from those attending other inner-city schools, then it must be what they do at school that produces such outstanding results. And he is right because KIPP focuses on better trained teachers,

BROWSING

Pradeep Sen
MD, NCR Corporation, India

I am currently reading EXECUTION: THE DISCIPLINE OF GETTING THINGS DONE by LARRY BOSSIDY and RAM CHARAN. The book defines the true meaning of leadership from an implementation point of view. It gives sound, practical advice on how to make things happen. It also contains good insights on how leadership becomes a key to achieve ongoing financial goals. I usually buy books that are recommended to me by friends. Other books on my reading list are *Good to Great* by Jim Collins and *The 4-Hour Workweek* by Timothy Ferris.

MALCOLM GLADWELL is a staff writer with *The New Yorker* magazine since 1996. In 2005, he was named one of *Time* magazine's 100 Most Influential People, largely for the insights and ideas he presented in his two previous books — *The Tipping Point* (2000) and *Blink* (2005). Before writing for *The New Yorker*, Gladwell wrote for the *Washington Post* for 11 years where he covered business and science.

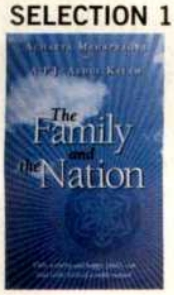
longer hours spent in school and structured learning programmes.

So what does this say about reservation-obsessed India? Is it good enough to enforce reservations for children from deprived families to study alongside other income groups? Or does the real answer lie in changing the way kids are taught irrespective of where they study? Education may be a fundamental right, but receiving a bad education is no benefit at all.

Access to the right opportunities is what put Bill Joy and Bill Gates in the same room as a mainframe computer when they were not even teenagers. Two decades later, they changed the role that society had in mind for computers. Fifty years on, almost every kid now has access to educational websites such as Wikipedia or How Stuff Works. The result of 'this explosion of access' is hard to predict. But one outcome is obvious — Indian society will learn quicker and will demand better of and for itself.

Perhaps the most important result of Gladwell's book is that it leaves us with the moral responsibility to act. In *Outliers*, Gladwell may have recycled oft-repeated wisdom about what brings success. But indirectly, he has made us think about how we can reform the ineffective and inefficient systems that are preventing us from advancing the society we live in.

SELECTION 1



Scriptures Meet Philosophies

THE FAMILY AND THE NATION

BY A.P.J. ABDUL KALAM AND ACHARYA MAHAPRAGYA; HARPERCOLLINS; PAGES: 240; PRICE: Rs 250

WHEN TWO GREAT MINDS MEET, THE DISCUSSION can never be dull. If one happens to be a scientist and the other a religious preacher, the debate and deliberations can be invigorating. Former President of India A.P.J. Abdul Kalam and Jain monk Acharya Mahapragya, authors of THE FAMILY AND THE NATION, have used science and basic social values to link every aspect of human existence.

This book is a storehouse of wisdom from ancient Indian and global scriptures, and also from philosophers woven into the context — individual, family and nation. "The biggest folly of modern man appears to be his being in conflict with nature," says Kalam in one of his interactions with his co-author.

The authors have dwelt a lot on philosophy and ancient scriptures to bring home the point: a happy family is the seed of a happy nation. But, although the critical element of a family runs through the book, it gets lost at places where the arguments between the two great figures of this century try to connect society using sacred scriptures and science. Unfortunately, just as one gets interested in what the authors are saying, the book dives too deeply into the subject. This is avoidable for any book that is aimed at firing up a lay reader's conscience.

Still, if you have a passion for philosophy and philosophers, this book is certainly worth the time you will spend here.

M. Rajendran

SELECTION 2

Not Just A Family Affair

IN HER DEBUT NOVEL, JOURNALIST-TURNED-NOVELIST Gita Aravamudan weaves a simple family tale. The story is set in Chennai, Tamil Nadu, around a strict Iyengar family that believes in values and culture, and never compromises on these. They also have a set of strict dos and don'ts, which if violated could lead to havoc, the effects of which could percolate across generations.

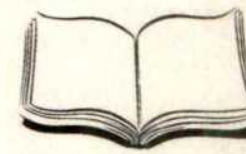
However, the story is not only about tradition and values. It is about personal events that lead to changes in the whole nature of kinship. At times, the novel gives readers a feeling of watching a *saas-bahu* saga on television because it spans several generations itself. While it's easy to follow, there is too much to digest as the reader meanders his/her way through the sea of people and the clutter of events in the book. However, the author manages to cut the narratives just before they become too dull and boring.

Through the ups and downs that the Iyengars face, the reader gets a feel of the south-Indian culture and of the changing mindset of people in the country. It gives a glimpse of the conflicts among different generations and how these are dealt with.

The beauty of the novel lies in the fact that the author has been able to deal with the complexities of relationships and family problems articulately. The captivating simplicity of this book makes it a good read for anyone with a taste for fiction. Also, for those who like more serious stuff, carefully woven political events and developments make it an attention-grabbing read.

Janhavi Abhyankar

ALERT



INDIAN BUSINESS ETIQUETTE: A COMPLETE GUIDE

BY RAGHU PALAT

JAICO

Ever had to deal with an annoying colleague who chews with his mouth open? Ever been puzzled about what colour socks one should wear with beige trousers? Ever had to host a dinner, but have no idea about the right seating arrangements? You are not alone. Raghu Palat has penned a book that deals with everyday etiquette in corporate India. First impressions are lasting impressions. Read this book to make sure that your first impressions say exactly what you would like others to think about you.

Irrepressible Optimism

THE MID-TERM REVIEW OF THE FINANCE MINISTRY is closer to being end-of-term. In two months, the ministry will be placing the Economic Survey on the Table of the House. The mid-term review, which the Fiscal Responsibility and Budget Management Act requires the ministry to prepare, is supposed to review developments between April and September. To take almost three months to put out a review of six months would be shameful for a private institution; even the finance ministry used to do better than this.

SANJAY SAKARIA

The finance ministry reviews the current slowdown with such glee that one fears the day the economy goes into a real crisis

It may seem too much for the ministry to bring out two reviews in a space of two months; but the review has been written so as to minimise labour. It chiefly reports on the declining growth and worsening parameters by repeating figures out of tables. Since the economy is sure to continue on its downward course, the ministry can lift paragraphs out of the mid-term review for the economic survey, simply changing tables and figures. The rest of the economic survey can be padded up with chapters to be received from other ministries.

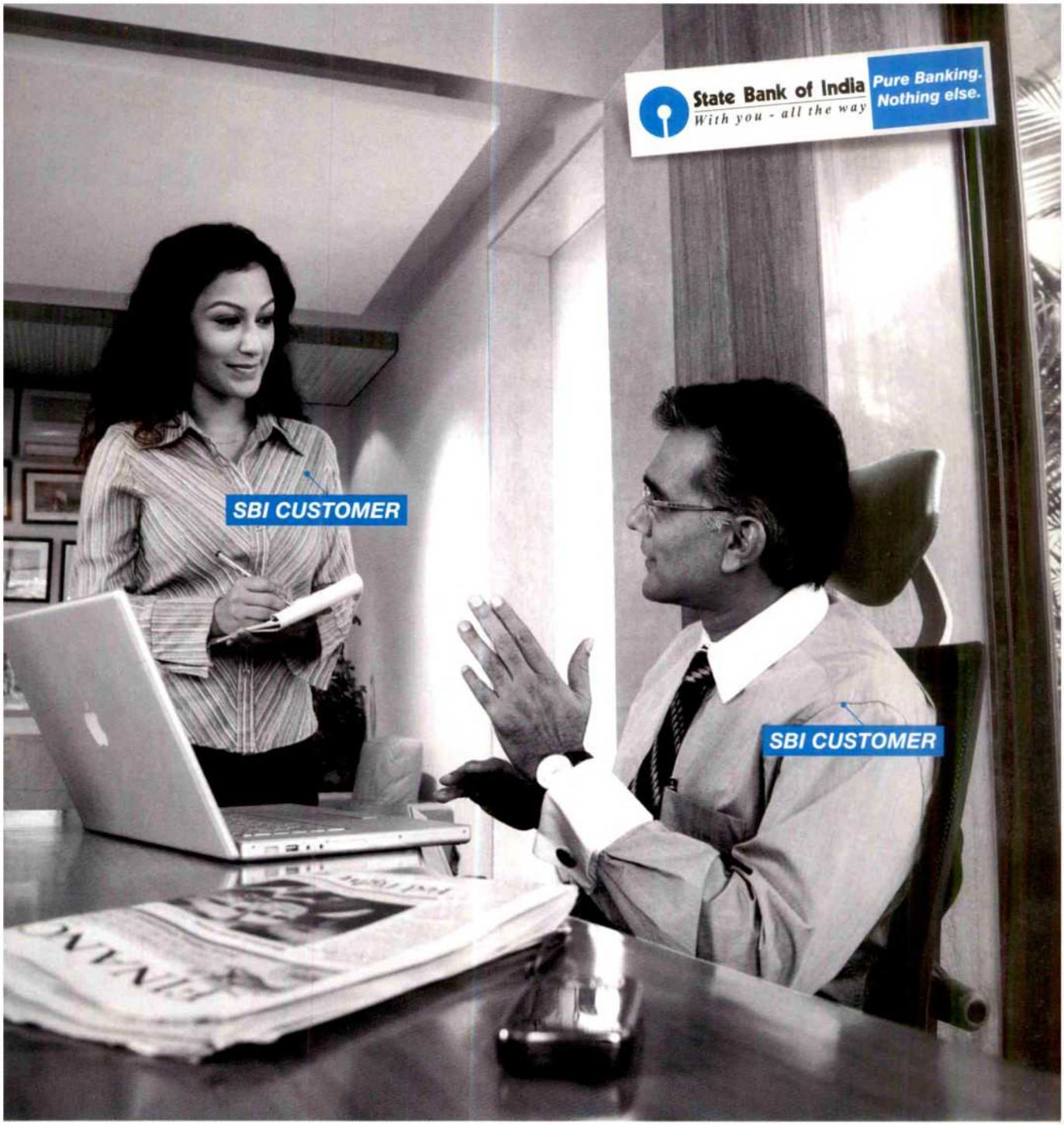
The ministry has done its best to dress up the depressing news it has to convey. It has been so determined to be cheerful that its message is often contradicted by the facts it has to report. For instance, it reports that the trade deficit went up by 60 per cent in April-October; and it says that the external sector continued to be robust and to reflect the strengths of the economy. The ministry seems to get such enjoyment out of the economy's woes that one fears what would happen if the economy went into a crisis; the ministry would probably celebrate the event with non-alcoholic champagne.

It is surprising that in this turbulence, the mid-term review draws its conclusions on the balance of payments on the figures for April-June quarter. Since then, reserves have fallen by over $50 billion. Some of the factors behind the decline are publicly known — for instance, flight of capital, and the Reserve Bank's defence of the Rupee. Others are no doubt known to the ministry. Avoiding going into these factors can only be a form of escapism.

Such is the contrariness of our tax system that as the economy sinks, the share of GDP taken by taxes in April-September went up from 5.3 per cent to 6.6 per cent this year. This is not just due to the fact that direct taxes are paid on past income. Even as profits fall, tax payments through the year continue to be based on the previous year's income; it is only at the end of the year, when firms file returns, that they can base their payments on the current year's profits. By that time, they will have overpaid income tax. They can apply for a refund, which they seldom get. All they can do is to sue the government. The cases wind through tax tribunals, and courts for decades. By the time the lengthy proceedings are concluded and overpaid tax is recovered, many firms will be dead. This is how the tax system worsens the pain of a downturn.

The mid-term review is required to be tabled in Parliament under the FRBM Act, and therefore has to report on how far the government has met the FRBM's fiscal deficit targets. It has, however, become a report on how the government has set about not meeting those targets. The original FRBM target was elimination of the revenue deficit and reduction of fiscal deficit to 3 per cent of GDP by 2008-09. The present government was in a hurry to spend, so it postponed the target date by one year. Now it is clear that it will miss the new date too. It can merrily do so, for Parliament is a consenting culprit in its default.

With the transition of A Virmani from the Planning Commission to the finance ministry and the departure of P Chidambaram to the home ministry, the relations between the finance ministry and the Planning Commission have become significantly closer. This is reflected in the fact that a fifth of the mid-term review is taken by a list of Plan schemes and their status of implementation. Harmony in government is always desirable. But despite the installation of Montek Singh Ahluwalia as Vice Chairman of the Planning Commission, the standards of assessment of Plan progress have improved little. Quantities continue to predominate, and quality to be ignored. That also implies that public money continues to be wasted – or at least that no one knows how far it is being wasted. The finance ministry is expected to be the guardian of financial soundness and probity. Since this government is intent on spending and passing on money to its vote banks, the finance ministry can do little beyond putting a gloss on waste.



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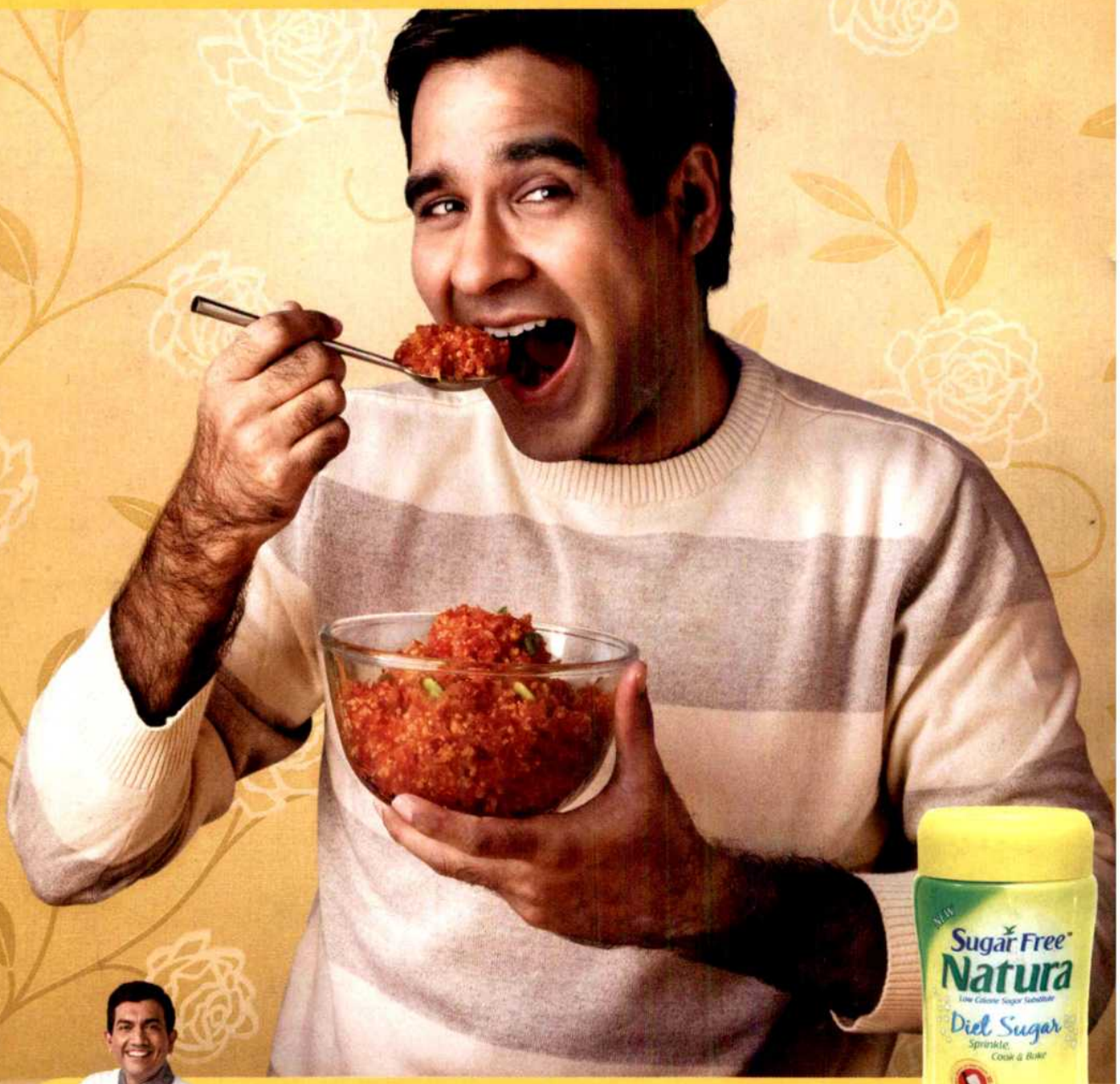

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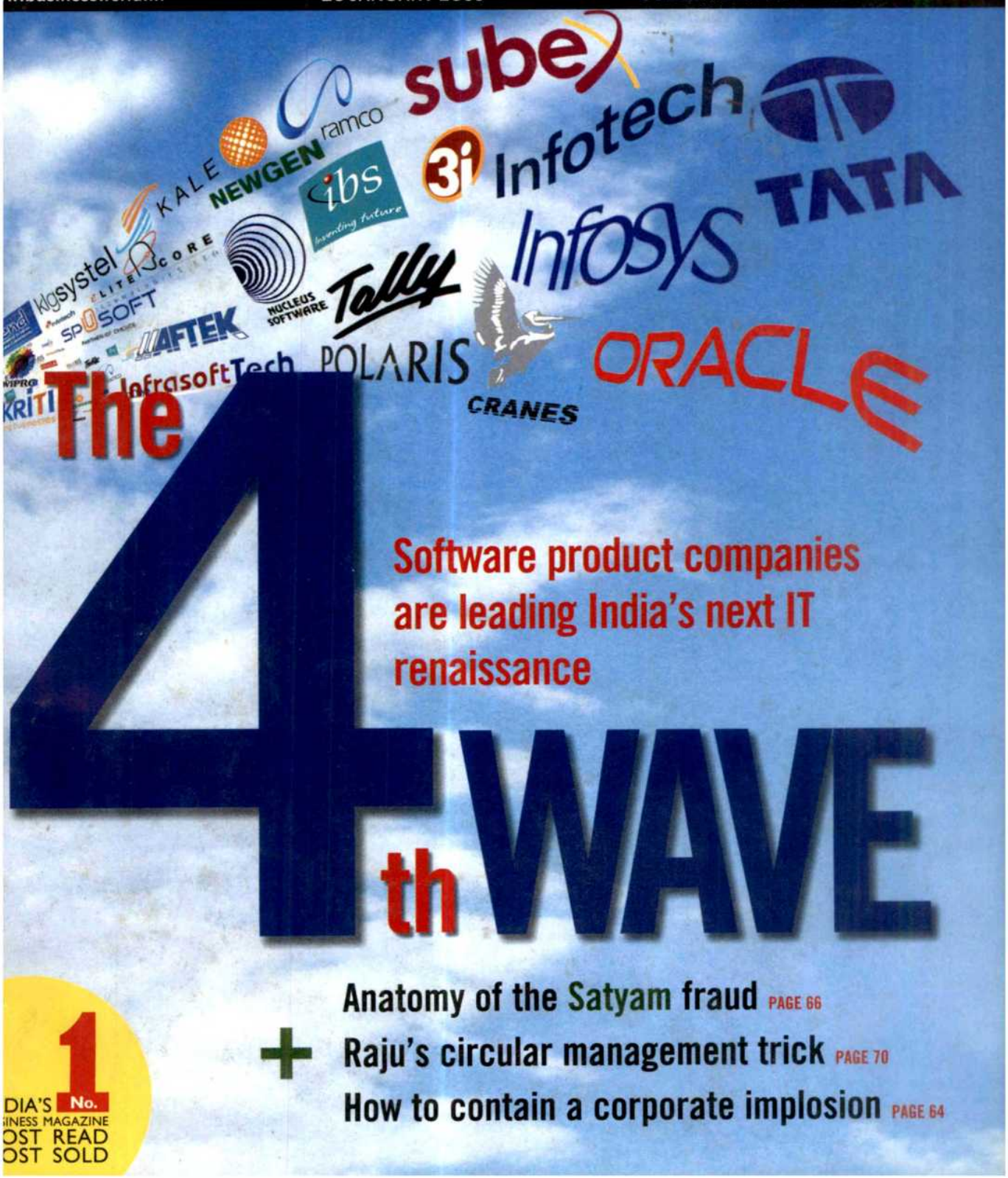

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A Challenge Worth Taking

QUEEN ELIZABETH II may be a historically inconsequential monarch, but she will be gratefully remembered by journalists looking to describe a bad year. 2008 was certainly the IT industry's *annus horribilis*. First, a rising rupee hurt its competitiveness and then the subprime crisis shrank its revenues and profits. The subsequent layoffs took the industry off its pedestal and the Satyam scandal further soiled its reputation.

But like the flame-ravaged Windsor Castle, which partly inspired the Queen's lone literary feat, the IT industry is rising again. From its services orientation in the 1980s-90s to the BPO boom of the late 1990s and the global expansion of this century, the IT industry is now progressing into the rarefied world of product development.

This fourth wave of growth will be risky. Product development is capital and resource intensive. It is severely competitive. It demands sharp marketing skills. And its payoffs take time. But they are huge.

The companies chasing the massive and recurring revenues that product companies such as Oracle and SAP enjoy know their chances of success are slim. They also know they have little choice.

A renewed backlash against outsourcing is staying US CIOs from sending huge projects to Bangalore, and the commoditisation of IT services is eating away at margins. While companies such as TCS, Infosys and HCL possess the scale to continue winning in the services business, smaller players will find it harder. But in the product development world, where creativity and imagination matter more, new entrepreneurs have a fighting chance.

There is a lesson in this for all of India Inc. A dependence on cheap labour — or imaginative accounting — can only take companies so far. It is the development of deep competencies that is the key to success. Building scale is the key to sustaining it. True to form, New Delhi has not established the ecosystem of risk finance, education and legislation required to build scale or competence. And many Indian entrepreneurs still try the short road to riches. But the IT industry has often been the trailblazer of change, showing India how it can aim higher and do better. One hopes the success of product development firms will push the nation towards new horizons.

jehangir s. pocha, editor

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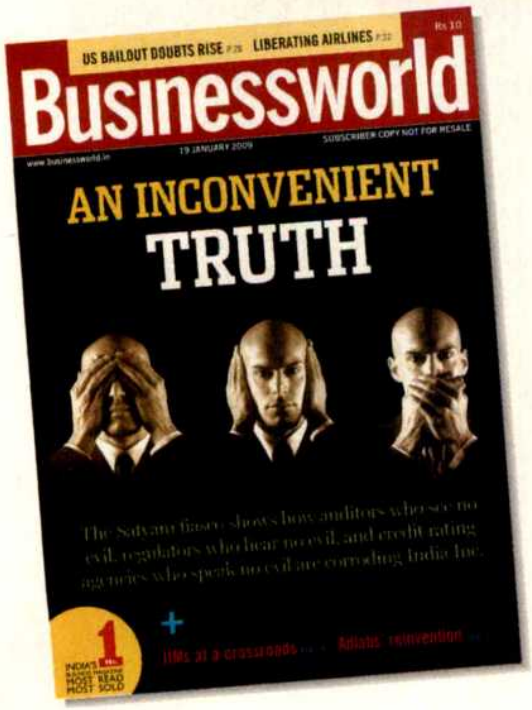

Government Bailout

Satyam's fall from grace is no different from the Global Trust Bank (GTB) fiasco that rocked the Indian banking sector in 2004 ('An Inconvenient Truth', *BW*, 19 January 2009). Satyam and GTB are cases of blatant violation of regulatory norms and deceit. While government quickly intervened then to avoid a confidence crisis by bailing out GTB and merging it with a state-owned bank that, ironically, preferred to do so for GTB's superior technology platform, infrastructure and reach despite massive non-performing assets, the fate of Satyam would now be consciously watched by all. Rightly so, neither the auditors nor regulators or even the credit rating agencies can wash their hands off the scandal. All of them have to be squarely blamed for this sorry state of affairs.

Srinivasan Umashankar, Nagpur

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Wrong Approach

Is modern education placing enough emphasis on methods and tools, and taking away independent creativity? ('It Is A Matter Of Degree', *BW*, 19 January 2009). Rote learning and emphasis of bookish knowledge are some of the shortcomings. Passing knowledge to the future generation is as important as the quest for new ideas. For example, while teaching metrics and measurement the emphasis should not be on what metrics are, but on what led to the discovery of metrics. What we conjure up are scholastic robots who know a set of rules without knowing where to apply them, and that is what happened in Hubber India. That's what pushed Naman into the conclusion that MBAs are rubbish. Blaming a degree is not the solution but laying greater emphasis on how to teach should be the need of the hour.

Rohit Gupta, on email

Real Steps

British Prime Minister Gordon Brown has stated that three-quarters of the terrorist activities being investigated in the UK have shown links to Pakistan ('The Covert Option', *BW*, 12 January 2009). It is high time Pakistan be declared a terrorist state. That country's main industry is terrorism. Unfortunately, the US blindly supports this industry by providing Pakistan all sorts of financial aid. All countries, including the US, must stop financial assistance to Pakistan until and unless it takes some real steps to crack down on the terrorist groups operating out of its territories.

M. Kumar, New Delhi

Bad Interference

Constant meddling by the HRD ministry will harm the sanctity of Indian Institutes of Management (IIMs) ('Tarnished Excellence', *BW*, 19 January 2009). We have entered into an intensely competitive environment and government should rather grant more functional autonomy that speaks of quality. IIMs, over the years, have acquired enough capabilities to manage things on their own. The present day educational units are well integrated with the market system, and market forces must be allowed to determine their fee structure to test what premium they can command as an educational brand.

Srinivasan Umashankar, Nagpur

Letters may have been edited for brevity.

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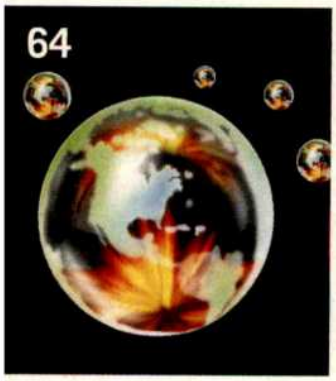

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GLOBAL FINANCE

The Unkindest Cut

Rising risk premiums neutralise the effect of policy rate cuts

MAKING HEADLINES: Bank of England's rate cut is the lowest in its 315-year history

THIS LATEST GLOBAL financial crisis has created several firsts. The Bank of England, the UK's central bank, has cut its overnight policy rates to the lowest in the Bank's 315-year history. In the US, job losses have reached the highest levels since the end of World War II in 1945. For all intents and purposes, there are likely to be other records that will be breached across the globe, in both developed and emerging market economies.

But none of the interest rate cuts have led to cuts in lending rates for borrowers, or for the flow of credit in most countries. That is because interest rates for borrowers have three components: the risk-free rate of return — the policy rate at which the government borrows, which is tied to the policy rates that have been cut — the perceived risk premium of lenders, based on their view of where the economy and business cycle are going, and the specific risk premium attached to the borrower.

While the risk-free rate component may have contracted, the other two elements have expanded. True, the intent of cuts in policy rates and loosening monetary policy (and expansionary fiscal policy, going by the various stimulus packages that have been announced) is to 'prime the pump'. So some analysts believe that the pump-priming should have a multiplier effect across the economy.

But many others — mainly lenders — see it differently in the current gloomy scenario. To them, it is like pouring water into a toilet: it raises the level a little in the beginning, but soon it all gets flushed away. For borrowers, news of rate cuts are not interest bearing notes.

Srikanth Srinivas

8.1 million. The number of new subscribers added by GSM operators in December 2008.

QUOTE OF THE WEEK **"I am proud that I listened to my own advice... Perhaps, I am not stupid any longer."**

— RATAN TATA ON HIS DECISION TO MOVE THE NANO PROJECT FROM WEST BENGAL TO GUJARAT

PHARMACEUTICALS

Breath-taking

A popular mouthwash brand in India could cause oral cancer

INDIA'S TOP SELLING mouthwash brand Listerine, marketed in the country by Mumbai-based Johnson & Johnson, the Indian arm of the US company, may increase the risk of oral cancer.

According to a recent study by a team of health experts, led by Michael McCullough, associate professor of oral medicine at the University of Melbourne and chairman of Australian Dental Association's therapeutics committee, mouthwash containing alcohol allows cancer-causing substances to permeate the lining of the mouth more easily and could cause oral cancer in the long run. Listerine, an over-the-counter product sold worldwide, contains as much as 26 per cent of alcohol. In India, Listerine accounts for an estimated 90 per cent of the country's Rs 45-crore mouthwash market.

Despite repeated attempts by *BW*, Johnson & Johnson's spokesperson could not be reached. Listerine was one of Pfizer's flagship brand, before the US major's consumer division was sold and the brand transferred to Johnson & Johnson in 2006.

Australian health experts have asked for such products to be immediately withdrawn from supermarkets, insisting that if at all, they should be sold on prescription and carry clear written health warnings.

India is yet to put in place a workable system to keep track of the side effects of drugs once they enter the market. The National Pharmacovigilance Programme is also close to becoming moribund because of lack of funding, since World Bank funding ended last June.

Noemie Bisserbe

BLOOMBERG

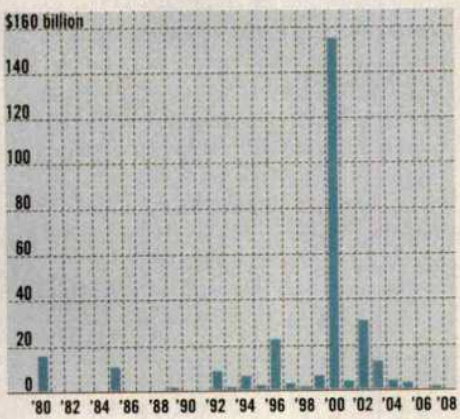
STRONG PRESENCE: Listerine accounts for about 90 per cent of India's Rs 40-crore mouthwash market

Global NEWS

Israel's ongoing assault on Gaza — which has so far claimed more than 900 lives — has taken a dirty turn with the Red Cross saying Israel has used white phosphorus in Gaza. The chemical causes burns on the skin and in the lungs when inhaled. However, Israel's Chief of General Staff Gabi Ashkenazi has denied this.

BILLION-DOLLAR VERDICTS DROP

For the second time in three years, US juries limited their awards to less than $1 billion, reflecting the lower threat of big punitive damages.



Bloomberg

GLOBAL ECONOMY

THE RIPPLE EFFECTS

GLOBAL RECESSION COULD AFFECT Asian economies much more than imagined. Major Asian ports have witnessed a sharp fall in traffic volume. The Singapore port saw its first decline — 14 per cent — since 2001 in November 2008 and in December 2008 it witnessed a steep fall of 18 per cent.

Similar is the case with ports of Hong Kong and Shanghai. It seems as if the pipeline of orders is drying up, the effect of lower consumer spending in the US and elsewhere is beginning to reflect.

Singapore is already expecting its economy to contract more; 2 per cent this year. The fourth quarter of last year saw a fall of 2.6 per cent in its GDP compared to the previous year. The strong linkages of trans-Asian trade to Singapore's economy, also means that the other Asian economies will follow the same path.

Back home, traffic volume at major ports fell and is today at 8.3 per cent below annual targets — a clear indication of the vulnerability of Asian economies.

Muthukumar K.

VENTING THEIR IRE

Bulgarian police clash with protestors in Sofia on 14 January 2009. The protesters called on the government to resign for corruption and inefficiency. Bulgaria, whose only supply of gas comes through the Ukraine, could begin to run out of its reserves soon if the dispute between Ukraine and Russia drags on and supplies don't resume.

INDUSTRIAL PRODUCTION

Small Cheer

The latest IIP numbers give some relief to the sagging economy

IN TIMES OF CRISIS, even a small piece of positive news brings cheer. The latest figure for the index for industrial production (IIP) — for November 2008 — shows industrial growth of 2.4 per cent. Small growth on the face of it, but not so small considering the fact that October 2008 witnessed a negative growth of 0.4 per cent — in other words, industrial production actually declined in October last year, for the first time in 15 years.

If it was manufacturing with (-)1.2 per cent growth that pulled down the overall IIP numbers in October, all three components of the IIP (mining, electricity and manufacturing) registered a positive growth of 0.5 per cent, 3.1 per cent and 2.4 per cent, respectively, in November.

Is industrial growth back on track?

Kandula Subramaniam

BLOOMBERG

CORPORATE FRAUD

BW ARCHIVE

Long arm of the law

CORPORATE FRAUDS MAY HAVE BEEN HAPPENING forever but this seems to be the season of them being detected. Dubai-based realtor Kabir Mulchandani was arrested last week in connection with a multi-million dollar fraud. Mulchandani ran Baron International in Mumbai in the 1990s and pioneered cheap colour televisions and music systems in India under the brand names Aiwa and Akai. Baron International later came under scrutiny for financial irregularities.

Reality Check

Organised people may appear boring but those who live a disciplined life in fact live much longer, according to a recent study conducted by the University of California.

DEFENCE

JOINT STRATEGIES

THE FOREIGN INVESTment Promotion Board's approval for the Mahindra & Mahindra-BAE Systems joint venture (JV) is a useful turn for the development of the private defence industry in India.

JVs are the way to go for Indian firms looking to acquire technological and management capabilities in the defence sector and access global markets. It is also a reasonable way for multinationals to gain a foothold in India's $10-billion-a-year defence equipment market.

BLOOMBERG

BAE has agreed to scale down its demand for stake in the JV from 49 per cent to 26 per cent, as it is looking to get a toe-hold in India and win friends to target the big-ticket orders even outside the scope of the JV, such as the $12-billion order for 126 medium multi-role combat aircraft.

Feroz Ahmed

TOP 10 LISTINGS

THE WORLD'S UGLIEST BUILDINGS

1. **Boston City Hall**, Boston, Massachusetts
2. **Montparnasse Tower**, Paris, France
3. **LuckyShoe Monument**, Tuuri, Finland
4. **Metropolitan Cathedral**, Liverpool, England
5. **New York Port Authority Bus Terminal**, New York City, US
6. **Torres de Colon**, Madrid, Spain
7. **Liechtenstein Museum of Fine Arts**, Vaduz, Liechtenstein
8. **Scottish Parliament Building**, Edinburgh, Scotland
9. **Birmingham Central Library**, Birmingham, England
10. **Peter the Great Statue**, Moscow, Russia

Source: VirtualTourist.com

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Seeing through the clutter

While automakers the world over are slashing production and cutting costs, Germany's Daimler is planning to continue to invest through the crisis period. Daimler CEO Dieter Zetsche says that he will not jeopardise the company's long-term success by cutting spending on product planning and research. "Despite the enormous pressures that our entire industry is under these days, we are facing the year 2009 with measured confidence," says Zetsche.

BLOOMBERG

New venture

Binani Cement has signed an agreement with the Gujarat government to set up a 2.5-million tonne per annum greenfield cement plant in Gujarat. The Rs 825-crore plant will manufacture ordinary Portland cement and Pozzolona Portland cement of various grades. Commercial production is expected to start by April 2011.

Premium loss

Cash-strapped luxury car maker Ford Motor Company is planning to sell its premium brand Volvo. According to Ford CEO Alan Mulally, the company began considering what to do with Volvo last month and is actively looking for buyers. After selling off others such as Jaguar and Land Rover, Volvo is Ford's last remaining premium auto line.

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Double game

Dutch financial services group ING is aspiring to double its market share in India's financial services sector. Currently, the market share of each of ING's three businesses in India — banking, asset management and insurance — is between 1 and 2 per cent. "The growth ambition is to double market share in the next 24 months," says Amit Gupta, director of marketing and communication at ING Life Insurance.

Catching eyeballs

India's largest insurer, Life Insurance Corporation of India (LIC), has signed an agreement with Policybazaar.com to sell its Jeeven Astha policy through the insurance portal. "For the first time ever, LIC has tied-up with an insurance portal, which will enable the customers to get detailed information on the policy," says Policybazaar.com in a statement.

SATHEESH NAIR

BW-THOMSON REUTERS M&A DEAL TRACKER

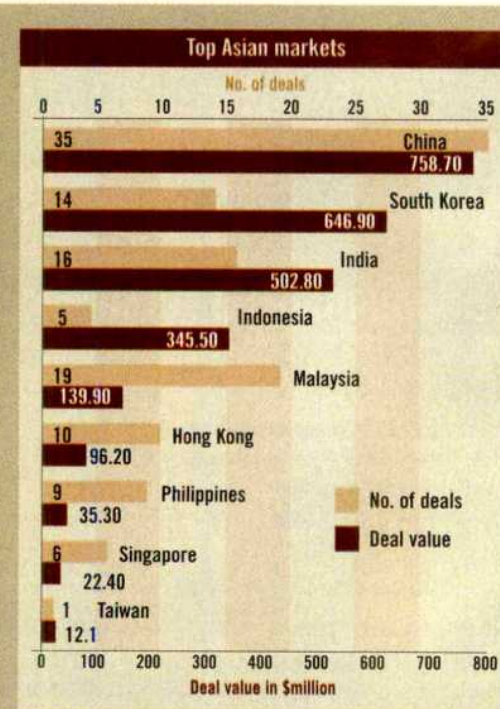
$2.56 billion The Asian M&A market saw 118 deals worth $2.56 billion as on 12 January 2009. China emerged as the largest market in the region with 35 deals worth $758.70 million.

Top Indian deals

TARGET	NATION	ACQUIRER	NATION	DEAL SIZE ($M)
Wireless IT Info Services	India	Quippo Telecom Infrastructure	India	497.57
BW Highway Star	India	Kamat Hotels, Unity Realty & Developers	India	3.10
Shaily Engineering Plastics	India	Motika	Cyprus	1.70
Golkunda Diamonds*	India	Neverloose Properties & Invt	India	0.30
Century 21st Portfolio	India	Undisclosed investor	India	0.10
Transcorp International	India	Sundaram Consultants, Tekmek Trading Co.	India	NA
Black Diamond Finance	India	Future Capital Holdings	India	NA
Karuturi Global	India	Max Worth Investments, Rays Global Corp.	India	NA
Birla-Pacific MedSpa	India	Pacific Healthcare	India**	NA
Mayfair Hotels & Resorts	India	State Bank of India	India	NA

Figures for 1-7 January 2009

*Golkunda Diamonds & Jewellery **Ultimate parent nation is Singapore



Figures for 1-12 January 2009

Learning curve

Knowledge Tree Infrastructure, a subsidiary of Ansal Properties and Infrastructure (API), has signed an agreement with BSI Management Systems to set up a joint academy at Ansal Institute of Technology at Gurgaon. The academy will provide specialised training and management development programmes. "This will help us expand the scope of training beyond our existing domain expertise," says Raj Singh, chief operating officer for education at API.

Exploring opportunities

State-run Oil and Natural Gas Corporation (ONGC) is joining hands with US-based oilfield services provider Schlumberger to explore shale gas potential in India. Shale is fine grained sedimentary rock from which hydrocarbons can be extracted. Schlumberger has expertise in three-dimensional seismic surveys to ascertain availability of hydrocarbons, and provides services for developing and managing integrated project exploration of shale gas and other hydrocarbons.

BLOOMBERG

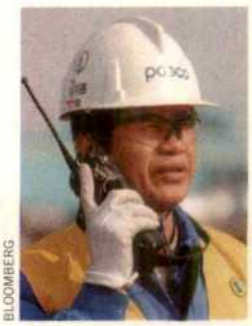
Domestic cut

In response to the global slide in demand for vehicles, South Korea's largest automaker Hyundai Motor Co. is slashing production by 25 per cent at its domestic plants during the first quarter of 2009. The cut will mostly affect larger vehicles. However, Hyundai will increase output of small cars as demand for fuel-efficient models remains strong, the company says in a statement.

Taking a leap

Jubilant Biosys, the Bangalore-based subsidiary of Jubilant Organosys, has tied up with US's BioLeap for drug discovery. With this, Jubilant will be able to offer drug companies advanced pre-clinical drug discovery services.

BLOOMBERG

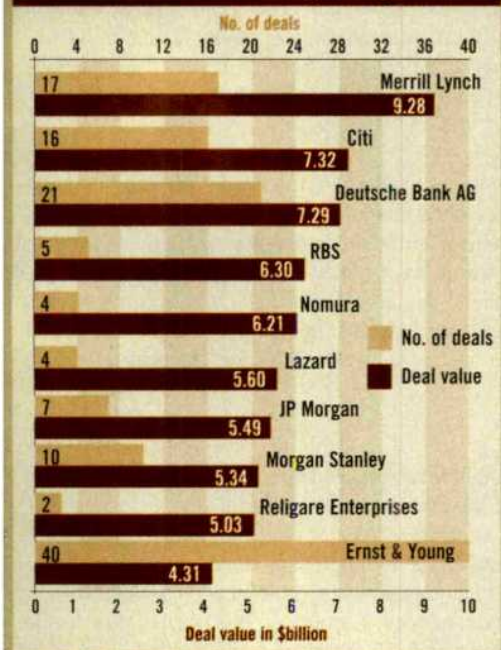


BLOOMBERG

Gaining from currency

Toyota, which recently reported its first loss since inception, is buying steel from South Korean steel maker Posco. This is the first time Posco steel has been used to make Toyota cars in Japan. This will help the Japanese auto maker gain from the weak South Korean currency. The South Korean won lost 26 per cent against the US dollar last year.

India financial advisory rankings



Figures for 1 January 2008-10 January 2009

Top Asian deals

TARGET	NATION	ACQUIRER	NATION	DEAL SIZE ($M)
Handan Iron & Steel Co.	China	Tangshan Iron & Steel Co.	China	2658.38
Chengde Xinxin Vanadium	China	Tangshan Iron & Steel Co.	China	2038.09
Wireless IT Info Services	India	Quippo Telecom*	India	497.57
Beiqi Foton Motor-Truck Bus	China	Daimler	Germany	410.17
Doosan Corp-Liquor Business	South Korea	Lotte Group	South Korea	385.30
Fajar Bumi Sakti	Indonesia	Bumi Resources	Indonesia	227.20
Zurich Asset Investment	Indonesia	Bumi Resources Investment	Indonesia	217.08
Benua Kurnia	Malaysia	HICOM Properties	Malaysia	208.35
Kumho Life Insurance Building	South Korea	JR Asset Management	US	185.00
Korea Express Co.	South Korea	Kumho Asiana Group	South Korea	167.58

Figures for 1-7 January 2009

*Quippo Telecom Infrastructure

Figures are based on ultimate parentage, meaning that an M&A deal carried out by a unit abroad will still be counted as that of the home country, provided the overseas unit is majority owned by the parent. Deal value is the total value of the consideration paid by the acquirer, excluding fees and expenses but including liabilities assumed. If the acquirer is buying 100 per cent of a non-financial company from a currently-held percentage of less than 50 per cent, deal value is calculated by subtracting the value of any liabilities assumed by the acquirer and adding the target's net debt. US dollar equivalents are computed using the exchange rate at the time of the deal's announced date. League tables are credited proportionately among financial advisors involved in a deal whether the firm participated as target or acquirer financial advisor.

Log on to www.businessworld.in for the complete list

Quick Take

Is the Satyam fiasco just the beginning of corporate governance scandals in India?

We asked... Vineet Aneja, partner, FoxMandal Little; Vineet Kanaujia, GM, marketing, Safexpress; Munindra Kumar Bharatee, MD, Serena Software, India; Neel Chowdhury, VP, marketing, CNBC TV18; Senthil Kumaran, MD, Silver Atena Electronic Systems; Bala Mahadevan, MD, CSC India; Santosh Mangal, MD, Nexgen Edusolutions; Diwakar Nigam, MD, Newgen Software; Sukumar Rajah, CIO, equity, Franklin Templeton Investments, India; Sunil Sharma, CEO, BDO Haribhakti Consulting; Surjeet Singh, CFO and chief of operations, Patni; Ajay Garg, professor, IIM-L; Partha Iyengar, head of research, India, Gartner

"While the Satyam incident is shocking, it is not fair to paint all of India Inc. with the same brush."

Surjeet Singh, chief financial officer and chief of operations, Patni

"The Satyam fiasco will have an impact on the perception about corporate governance in India."

Sukumar Rajah, CIO, equity, Franklin Templeton Investments

"No. The government can use Satyam as an example to make companies absolutely transparent."

Munindra Kumar Bharatee, MD, India, Serena Software

Yes 23%

YES BECAUSE: Many companies in India are family owned and majority shareholding remains with the promoters, which makes the companies less transparent. No one can rule out a possibility of another Satyam-like scandal in the country. The Satyam debacle has revealed that there are a lot of ambiguities in the auditing system. In India a lot of promoters are also directors in their companies. If a company is listed, promoters should not be at the helm of affairs unless he or she is elected by the shareholders. Scandals such as Satyam throw an opportunity to the regulators to flush out dubious corporate practices. The government and organisations such as Sebi and ICAI need to take strong steps to ensure the fairness of financial information in the public domain.

No 46%

NO BECAUSE: It is not fair to paint all of India Inc. with the same brush. The industry has had an illustrious past and worked very hard to gain the confidence of global corporations who have entrusted their engineering and mission critical operations with Indian companies. Satyam is an isolated incident and an aberration. The corporate governance standards of Indian companies are fairly strong since the government and institutional holdings continue to dominate the investor profile community. Further, with mature capital markets and robust redressal mechanisms, Indian companies are reviewed for internal controls at various levels. India would never see major bankruptcies like the ones witnessed in other economies of the world.

Maybe 31%

MAYBE BECAUSE: There is a collective failure of responsibility in the higher echelons of the corporate world — be it the independent directors, the auditors or the management. Corporate governance norms need to be tightened, which should encompass stricter disclosure requirements and making the directors more responsible. It is very unlikely that other big Indian companies have corporate governance issues like Satyam. However, it is prudent to go by the history of legal wrangles each of these companies have had in the recent past. The regulators need to empower independent directors in companies, especially in promoter-controlled firms. The regulatory authorities can use the Satyam case as an example to plug the loopholes in the corporate governance structure in the country.

In times like these, you need to act fast to win every deal and keep every customer.

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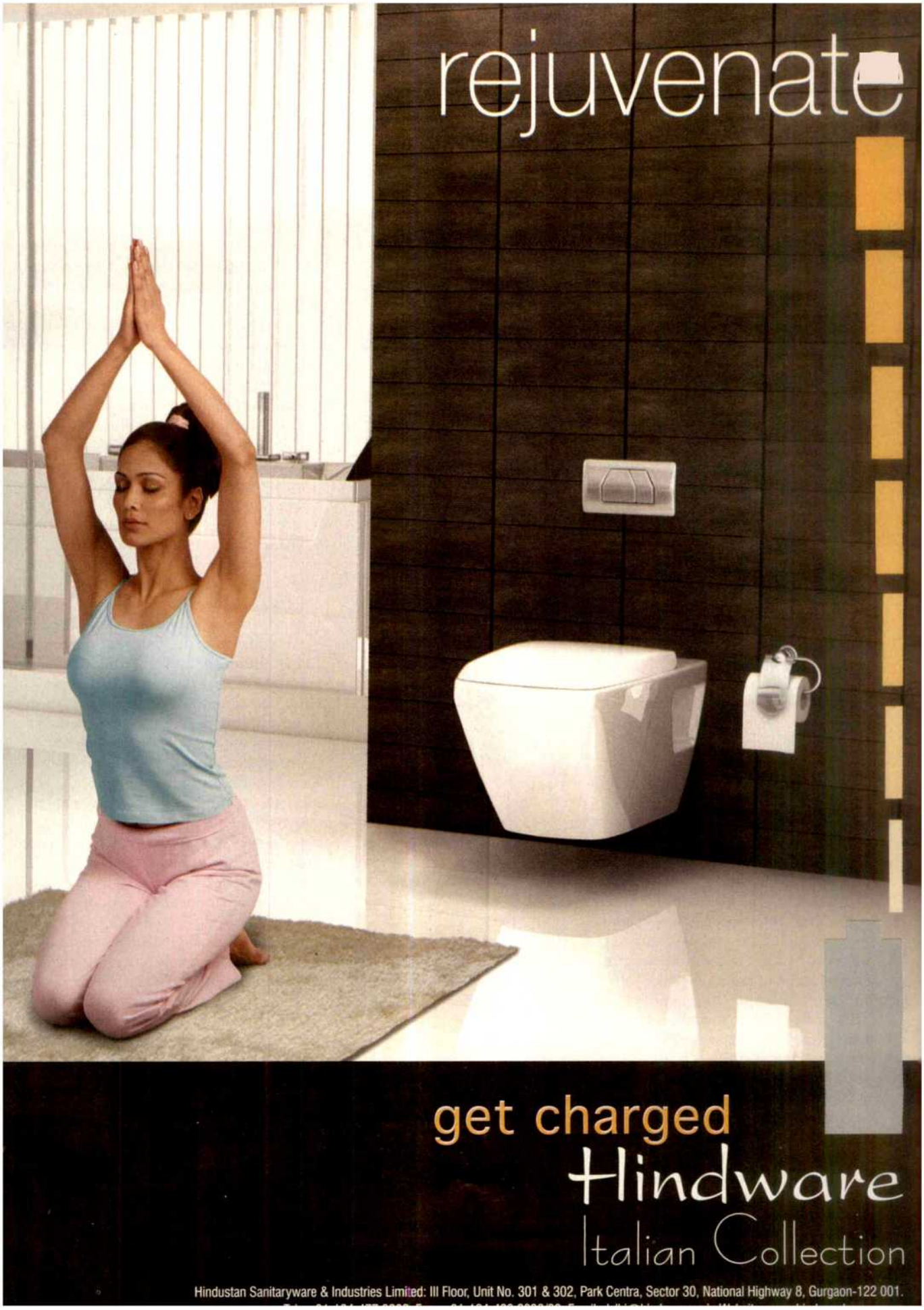
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The Rise Of Internet

by ashok v. desai

PEW RESEARCH CENTRE INTERVIEWED 1,489 adult Americans in December. It found that for the first time, internet overtook newspapers as principal source of news: 40 per cent got their news from the internet against 35 per cent from newspapers. Television continued to be far ahead of both, with a viewer percentage of 70 per cent. It has experienced a slow decline from 82 per cent in 2002, but it will take a while for its dominance to be threatened. The score of newspapers has fallen from 46 per cent in 2004 to 35 per cent in 2008; the score of internet has risen from 24 to 40 per cent in the same period.

The absence of a way to sell content on the internet has adversely affected the economics of newspapers

Amongst young people (aged 18-29), internet, whose score rose from 34 to 59 per cent just in the past year, already rivals television, whose score fell from 68 to 59. Even fewer young people read newspapers — 28 per cent against 35 per cent for the total population. What surprised me was the number who get their news from the radio — 18 per cent. But then, the radio is a universal accessory in American cars, and many listen to it while driving; a number of those catch up with the news as well.

What did the internet gain youth audience share from? It was not newspapers or magazines, but television, whose score fell by 11 per cent in the past year. The score of internet rose 25 per cent; the score of newspapers and radio rose 5 per cent each. These increases are small and within the range of random variation. The rise in the score of internet, however, is too big to dismiss. Young Americans are getting news increasingly from the net.

It is unlikely that this is because of greater access to internet. It is already high in America — so high that public access to internet in the form of internet cafes and cybershops has been stagnant. What seems likely is that time spent on television is declining, and that time spent on internet is rising.

How is it that internet has come to rival television? The most important reason is the spread of broadband, which allows transmission as fast as on television. One of the most important uses of internet in the US is for downloading movies. Television news is just a special kind of movie.

But internet news is not a substitute for television news; most people do not watch internet as a movie with beautiful newsreaders reading from prompters. It is better to use the internet screen as a prompter and to read the news as text; the moving pictures that go with it on television are not so entertaining an addition as they are in movies.

This is good news for newspapers, which can never compete with other media on the basis of pictures; it is words that is their forte. All that newspapers have to do is to get on the internet and give news.

There is only one problem with that, namely internet users do not pay. They may pay their internet provider, but he has no incentive to share his revenue with anybody. There is more than enough material available free on internet. Porn sites may be able to make some money from internet; but news has no chance. Hence although newspapers seem to be holding their own in the US, their long-term future does not look any brighter because television is declining.

We are far from the demise of television in India; there are still enormous ignorant masses left for it to exploit. But the decline of newspapers may not be so far even in this country. Future is especially threatening for English newspapers. The overwhelming majority of internet users are Anglophone; there is nothing to prevent them from reading news online and abandon newspapers.

Growth of newspaper readership has already slowed down in India; this has evoked keen competition amongst newspapers. Different newspapers have been trying out different formulae for survival. Amongst financial newspapers, *Economic Times* tries to combine entertainment with news. *Business Line* compensates for its inadequate news coverage by having weightier editorial pages. *Business Standard* tries to cover company news, backed by systematic coverage of the stock market. *Financial Express* has not yet found its core strength. None of them has the comprehensive coverage or quality of *Wall Street Journal* or *Financial Times.*

That suggests to me that there may be space for a more comprehensive financial magazine — one which concentrates on informing the reader. That does not mean giving up attempts to entertain or provoke him; but I think he would be prepared to pay for a weekly news summary, more comprehensive, critical and thoughtful than newspapers can provide.

The author is Consultant Editor of *Businessworld.*
ashok.desai@gmail.com

Finding the upside in the downturn

Communications service providers (CSPs) feeling the heat of the global economic downturn can beat the credit crunch by focusing on three areas, says Nokia Siemens Networks.

Faced with pressure to reduce capital and operating expenditures, CSPs still have to meet subscribers' demand for lower bills and packaged offers. Hence, CSPs must find ways to harness technology and maximize existing infrastructure investments. At the same time, CSPs must continue to deliver innovative products and services to delight and win customers.

3 steps to beat the credit crunch

Drawing from the rich experience of working with 1,400 customers globally, Nokia Siemens Networks has identified three ways to help CSPs turn today's downturn into an upside:

Reduce loss

Addressing the revenue drain from churn can reduce loss versus the cost of acquiring new customer accounts. Focus on customer service.

Improve efficiency

Modernization and innovative approaches to network planning and implementation can drive costs down. Use energy-efficient products and focus on optimizing network efficiency.

Increase revenue

Tap into new revenue sources such as enhanced services and/or target new subscribers, especially in emerging markets.

Energy consumption reduced; site rental savings achieved

Since October 2006, Japanese CSP Softbank Mobile Corp. has been expanding its market share rapidly. To cater to traffic spikes, it needed to increase its network capacity. Softbank Mobile also wanted to reduce carbon emission of its base stations, part of its green efforts as a socially responsible corporate citizen.

The CSP deployed Nokia Siemens Networks' Flexi BTS as it offered several benefits. For a start, they were able to achieve savings of 15% in capital site investment with the Flexi BTS.

Softbank Mobile was also able to accommodate the high traffic simply via a software migration, rather than through the installation of more base stations, thus further reducing its CAPEX.

Nokia Siemens Networks Flexi BTS' size means portability even in densely populated Japan where land space is at a premium. This resulted in easier negotiations with land owners, enabling Softbank Mobile to save up to 40% savings on site rental costs. Power consumption has also been drastically reduced by 60%, resulting in another significant cost saving for Softbank Mobile.

With the use of the smaller and more energy-efficient Flexi BTS, carbon emissions has also been reduced, thus helping Softbank to fulfill its corporate social responsibility while offering the best mobile services competitively to their subscribers.

Nokia Siemens Networks

www.unite.nokiasiemensnetworks.com/creditcrunch

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BIVASH BANERJEE

Winter Of Discontent

by Gurbir Singh

Latest incidents show that labour militancy is on the rise

THE TWO RECENT NATIONWIDE STRIKES CREATED the panic they were intended to. As many as 55,000 officers belonging to 13 public sector oil companies — earning gross salaries between Rs 1 lakh and Rs 3 lakh a month — went on strike beginning 7 January disrupting oil production, shutting 17 fertiliser units and pushing vehicles off the road. The strike crumbled on the third day but only after the government ordered arrests of the leaders and called in the Army.

The truckers' strike ran parallel to the oil agitation with transporters demanding cheaper diesel and tyres, and an end to octroi and other taxes. By the time the strike ended on the eighth day, food and commodity prices nationwide were spiralling and the government was forced to threaten mass cancellation of motor licences.

There are some pointers in these disruptive tactics. The placid industrial relations created by the prosperity of a spanking 9-10 per cent GDP growth story seems to be turning. Labour militancy has been steadily on the decline over the past decade. In 2000, 28.8 million mandays were lost due to strikes and lockouts. By 2006, this had fallen to 20.3 million; and in 2007, it petered down to just one-fourth or 5.6 million.

Now, the slowdown has added fresh recruits to the band of protestors. Television and cine workers in Mumbai brought studio production to a grinding halt last November. Wipro's consumer care unit in Bangalore went on a lightning strike in October; and in September, workers of Noida-based Graziano Trasmissioni bludgeoned their CEO to death, following a mass dismissal order.

"Militancy is on the rise," says Franklin D'Souza, coordinator for the India chapter of the International Union of Foodworkers. "Four units of Nestle in Punjab and Goa with 4,300 workers are going on strike on 19 January. They have no record of protest since 1960."

According to Vivek Monteiro, secretary of the Maharashtra chapter of Centre of Indian Trade Unions, there is widespread discontent against wage cuts and job losses. "These could lead to some wildcat action, but the general environment is not pro-strike yet. The mood is to put pressure on employers to stem the tide," says Monteiro, who in fact keeps a calendar of all-India protests.

The popular notion is that such trade union activism is expected around elections, to put policy pressure on the government. But this election year, the far deeper grassroot discontent created by the worsening recession is difficult to miss. It could develop into widespread spontaneous protest and even violent action as seen during the mass sacking at Jet Airways.

An interesting sidelight is the more militant approach of the relatively well-off sections. The Oil Sectors Officers' Association was peeved at a wage hike that turned out to be just 17 per cent against the government claim of 55 to 150 per cent. The main strike demand was a 32 per cent hike; and these well-heeled officials were angry enough to brave arrests and dismissals.

So, protests can be expected from groups such as airline and IT employees and workers in multinational companies who are angry with the sudden withdrawal of privileges, and who have the economic cushion to take on a showdown. The more desperate — contract workers, construction employees and daily wage labourers threatened with losing their jobs altogether — are unlikely to take to the streets just yet.

gurbir.singh@abp.in

BLOWN OUT: The strike by officers of 13 public sector oil companies held the entire country to ransom

Tailored Catastrophe

by Shalini S. Sharma

A mere bailout may not help India's textile industry

NOT VERY LONG AGO, SOME PRIVATE AIRLINES IN India wanted the government to bail them out of a financial crisis. The Tata group's JLR — the company formed after the acquisition of Jaguar and Land Rover — sought the UK government's help. Those demands were ignored, but now there are talks of another bailout, if reports of Prime Minister Manmohan Singh discussing a package for Satyam Computers with his cabinet colleagues turn out to be true. A three-month package could add up to about Rs 2,000 crore.

So, when the labour-intensive textile industry asks for sops, it does not seem as audacious as some others. Textile industry organisations such as the Confederation of Indian Textile Industry (Citi), the Apparel Export Promotion Council and Synthetic Rayon and Textile Export Promotion Council have warned the government of a "looming catastrophe" if nothing is done to prevent its Rs 1 lakh crore of investments from turning into non-performing assets.

Citi Chairman R.K. Dalmia's laments make for a perfect downturn sob story. "Interest escalation, global crisis and demand recession, delay in release of funds meant for textile upgradation and the rising prices of cotton due to a 40 per cent increase in the minimum support price for farmers have taken a toll on the industry, which is now in the throes of a liquidity crisis."

But the global recession and slowdown is fairly recent. What stopped the industry from doing its bit when the going was good?

While China has created massive economies of scale, in India units have resisted consolidation. Citi General Secretary D.K. Nair blames the government for the state of affairs. "India's tough labour laws make consolidation impossible. Even big players such as Gokaldas Exports, employing more than 45,000 workers, work through as many as 42 factories instead of just four or five big ones."

Sudhir Dhingra, chairman and managing director of Orient Craft is more self-reflective than Nair when he says, "The biggest problem of the sector is that it is disjointed. There are too many different voices, there is lack of discipline and there is a huge problem of low productivity — the reason why Indian factories do not produce even 50 per cent of what others do." Most of the units severely affected by the crisis, Dhingra says, are those that were servicing extremely price-conscious customers who have now shifted focus to countries such as Bangladesh, Cambodia and Vietnam.

True, these countries are getting massive protection and support from their governments but the textile industry even in India has for years got sops — such as cash incentives — during our own protectionist era.

"Smaller countries have the advantage of duty-free access for imports that a bigger player like India cannot get," says J.N. Singh, joint secretary in the ministry of textiles. "Hence they have surpassed us in competitiveness. And bigger players are all suffering, including China." Singh says that anything in the form of a third stimulus package seems unlikely at present.

Among other things, the industry is now asking for export credit at 7 per cent instead of at prime lending rate, availability of cotton at international prices, speedy payment of duty drawback dues and interest on the dues.

The way out is for both the government and the industry to walk that extra mile and come up with long-term solutions. A dole in time of need is far from the remedy. The government should release the legitimate dues of the industry such as the pending payments of duty drawback — to take care of the immediate calamity and also do a re-think on labour laws. After that, the units that can't shape up, should ship out.

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C.P. SHANMUGHAM

LOOMING THREAT: Major textile industry organisations have warned that the industry is in deep trouble

AP

Sidestep Or Tap Dance?

by Manashwi

The Exxon-Mobil chief fuels the climate change debate

"CARBON TAX STRIKES ME AS A MORE DIRECT, A more transparent and a more effective approach (of countering global warming)." This reads like just another line from the ongoing carbon tax versus cap-and-trade debate, except that it comes from Rex Tillerson, the CEO of the world's largest oil company Exxon-Mobil. For decades, Exxon — which Greenpeace has called Climate Criminal No. 1 — has denied the existence of man-made global warming and has poured millions into at least 124 organisations that lobby against the idea.

Tillerson's change of stance reflects the changing political landscape in the US, and the growing support for action on climate change. So Exxon doesn't want to be an obvious target. But curiously, it is supporting a carbon tax, and not the more widely accepted cap-and-trade system, which awaits approval by the US Congress.

But there are still hurdles ahead for the cap-and-trade system. Nancy Pelosi, speaker of the US House of Representatives, has said she will not force the cap-and-trade bill in the 111th Congress. If it is passed now, it could raise coal-fuelled energy prices by 15-30 per cent, says Ben Jones, assistant professor at Kellogg's School of Management, a politically difficult decision in a recession year.

"Carbon tax is a political poison pill," says Kert Davies, a research director at Greenpeace. "No politician would propose something with the word 'tax' in it. Being in favour of something makes Exxon look like it is being intellectual, but this threatens to derail the prevailing international discussion." And this also protects Tillerson's job as CEO. He was challenged by the founding family of Exxon, the Rockefellers, which didn't like his earlier rubbishing attitude towards climate change. Coincidentally, Senator Jay Rockefeller was recently named the head of the Senate's Committee on Commerce, Science and Transportation.

Tillerson might also have been more effective in increasing the life span of his core business by extending the debate on the switchover to alternative fuels, which his rivals espoused as early as 2002, and have advertised heavily. Seven per cent of British Petroleum's annual investments (amounting to $1.5 billion) are in alternative energy. That includes natural gas; the number for Royal Dutch Shell is estimated to be about 10 per cent of its operations.

Tillerson is not alone in supporting the carbon tax. "Giving away allowances (under cap-and-trade) means that the government won't get the revenue it could otherwise use directly to fund climate initiatives," says Janet Milne, lawyer and professor at Vermont Law School.

But others disagree that a carbon tax will be better. "A cap-and-trade system promotes broad international participation," says George Wagner, economist at the Environmental Defense Fund in New York. "Developing countries would most surely be net sellers in the global carbon market — because of low-cost abatement opportunities and since they are likely to receive more generous emissions targets than industrialised nations."

Neetu Goel, research associate at The Energy and Resources Institute (Teri) agrees with Wagner that a cap-and-trade system is most plausible for a country such as India. "It will take a while before controlling carbon emissions becomes serious business in India; and when it does, merging into a global framework with considerations for developing nations will be best suited."

Tillerson may have just put a tiger in his company's growth tank, and a cat among the pigeons as well.

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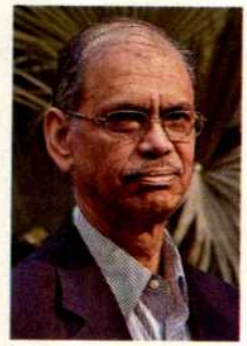
SCARY PAST: The catastrophic Exxon Valdez oil spill in Alaska in 1989 remains a blot on Exxon's image

Politically Incorrect

by nayan chanda

INDIA'S PERENNIAL PROTEST CAPITAL, KOLKATA, recently produced yet another political movement: the "auto bachao" or "save the auto" campaign. Despite echoing the cry of America's 'Big 3' automobile company CEOs, who successfully lobbied Congress for a bailout, Kolkata's campaigners have a rather different beneficiary. The smoke-belching three-wheeler auto-rickshaws that they are attempting to 'save' could not look more different from the shiny, gas-guzzling SUVs and sedans produced by Detroit's stricken giants. The natures of their respective movements are also a study in contrasts. The operators of Kolkata's noisy and polluting auto-rickshaws made their point by burning state buses and disrupting traffic, while the managers of the US's auto manufacturers flew into Washington DC on sleek private jets to beg Congress for a bailout. Yet beneath the vastly different battles underway to save the 'auto' lies a basic truth: whether in Detroit or Kolkata, saving jobs, profits and political patronage trumps saving the environment.



Short-term political gains often trump environmental issues until politicians are forced to the wall

The violent demonstrations and the pall of smoke rising from the burning buses of Kolkata at the beginning of the year are a rerun of an old movie. Like on previous occasions, in July 2008 the High Court responded to a public interest litigation and ordered that by 1 January 2009, older model auto-rickshaws running mostly on toxic adulterated fuel would have to be replaced by newer models running on compressed natural gas (CNG), a cleaner fuel. Unionised auto-rickshaw operators, who had long flouted emissions regulations under the protection of the ruling Communist Party of India (Marxist), went on a rampage, forcing the state government — which had done nothing to facilitate the transition ordered by the High Court — to plead with the court for more time. Allowing the city's 60,000-odd auto-rickshaws to carry on polluting would exact a heavy penalty on Kolkata's environment and the health of its residents. Last year, the city was declared the most polluted in India, with the highest number of lung cancer victims and as many as 70 per cent of its denizens suffering from respiratory ailments. Victims of pollution may not know where to direct their grievances but the polluters know what levers to pull to make the government do their bidding and delay the court-ordered changeover to CNG.

American automobile companies and their lobbyists have for many years fought against the efforts of environmentalists to promote efficient engines with greater gas mileage. Avoiding the additional costs involved in R&D seemed a more attractive choice, and politicians, mindful of the auto workers' union support and campaign contributions, were willing to shield them from pressure to change. Ultimately, amid last year's record high oil prices, consumers provided the inevitable decisive push, voting with their wallets for more fuel-efficient foreign cars. Facing bankruptcy, America's auto majors and their unions turned to Washington for succour. The help has come but attached with strings for an overdue makeover. The restructuring of the US auto industry was to be overseen by a 'car czar' with expertise in "energy efficiency, environmental protection and environmental stabilisation". Detroit got the message: the North American International Auto Show in Detroit last week saw US carmakers abandon their usual razzmatazz of glitzy, high-performance sports cars to showcase 'green' electric and hybrid models.

Not that Kolkata's entrepreneurs lack ideas about how to save the auto and the environment. In October, the West Bengal Green Energy Development Corporation and Tara International, a developer of battery-operated automobiles, submitted proposals to convert auto-rickshaws to run on batteries that could propel the vehicles for 200 km on a charge of eight hours. Even the state transport minister was reportedly impressed with the demonstration. But, as usual, political calculation has prevailed over the environment concerns. The government has yet to move on providing loans to auto-rickshaw operators for conversion. In anticipation of the 1 January deadline for the ban to take effect, several banks were ready with loans but so far they have had no takers. Short of receiving contempt of court notices, Kolkata's politicians seem reluctant to turn their backs on influential constituents, even if other, less strident, voters suffer as a result.

Whether in Detroit or Kolkata, short term political gain trumps the graver, long-term issue of climate change until politicians and businesses are forced to the wall.

The author is director of publications at the Yale Center for the Study of Globalisation and Editor of *YaleGlobal Online*.
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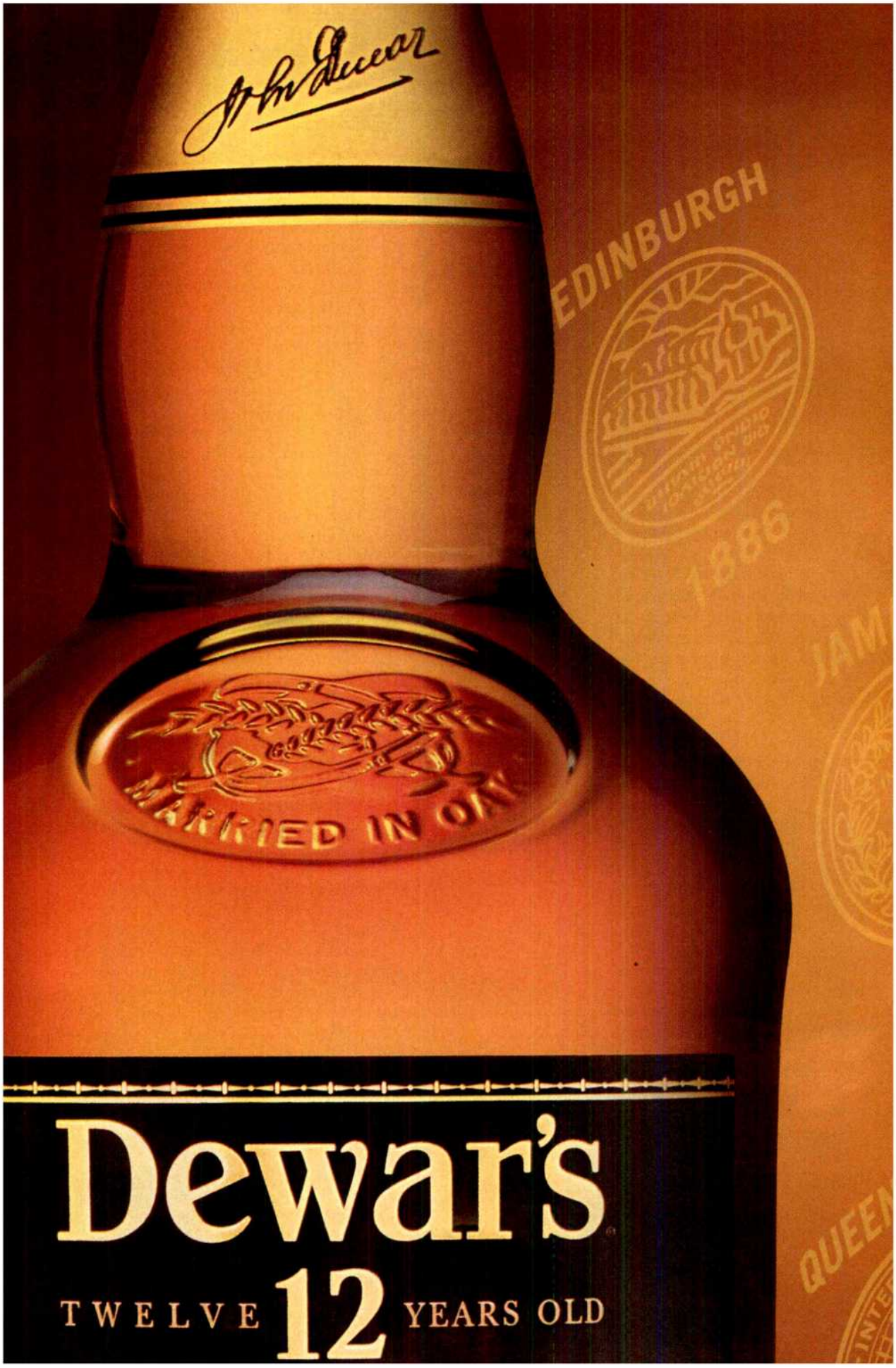
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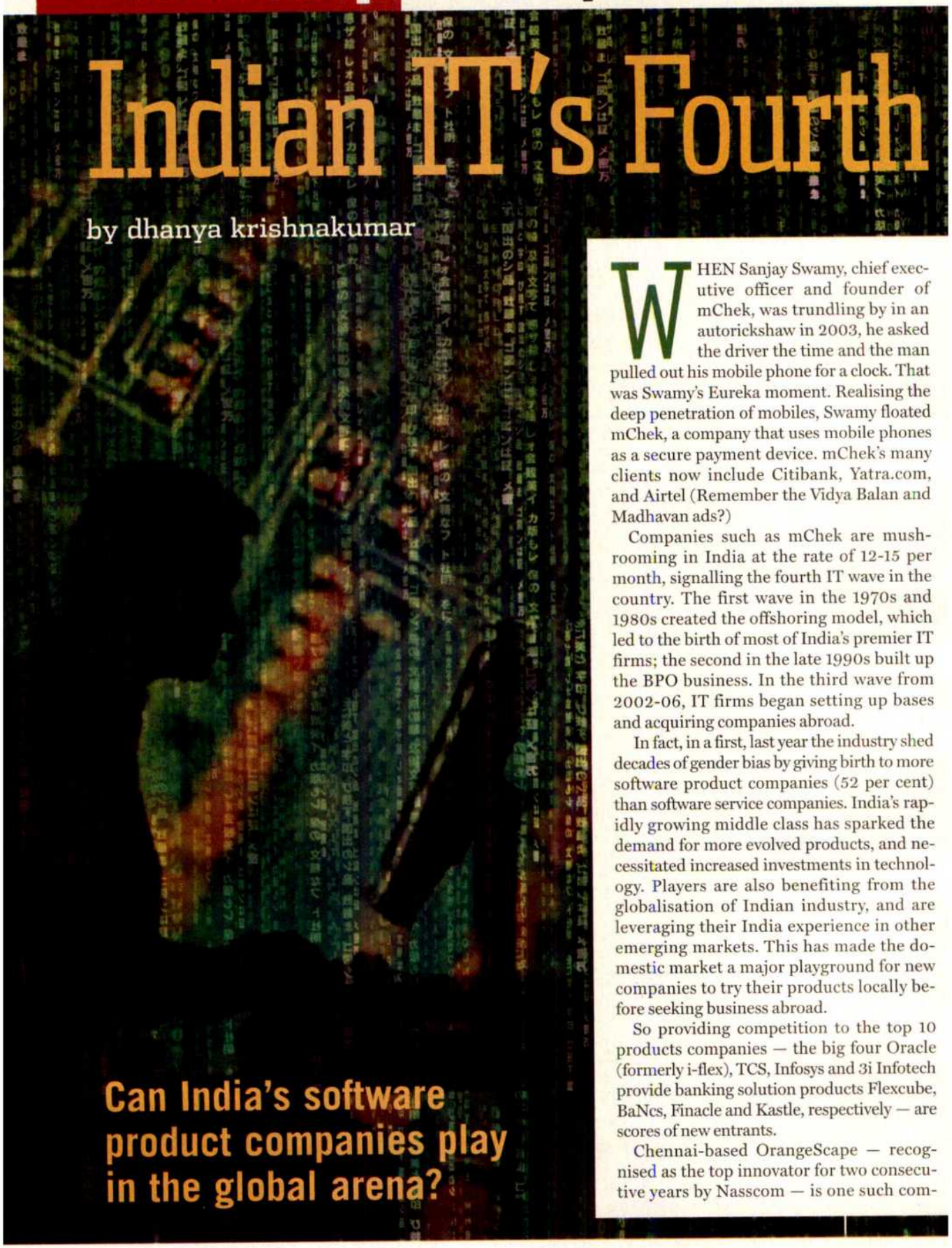
Indian IT's Fourth

by dhanya krishnakumar



Can India's software product companies play in the global arena?

WHEN Sanjay Swamy, chief executive officer and founder of mChek, was trundling by in an autorickshaw in 2003, he asked the driver the time and the man pulled out his mobile phone for a clock. That was Swamy's Eureka moment. Realising the deep penetration of mobiles, Swamy floated mChek, a company that uses mobile phones as a secure payment device. mChek's many clients now include Citibank, Yatra.com, and Airtel (Remember the Vidya Balan and Madhavan ads?)

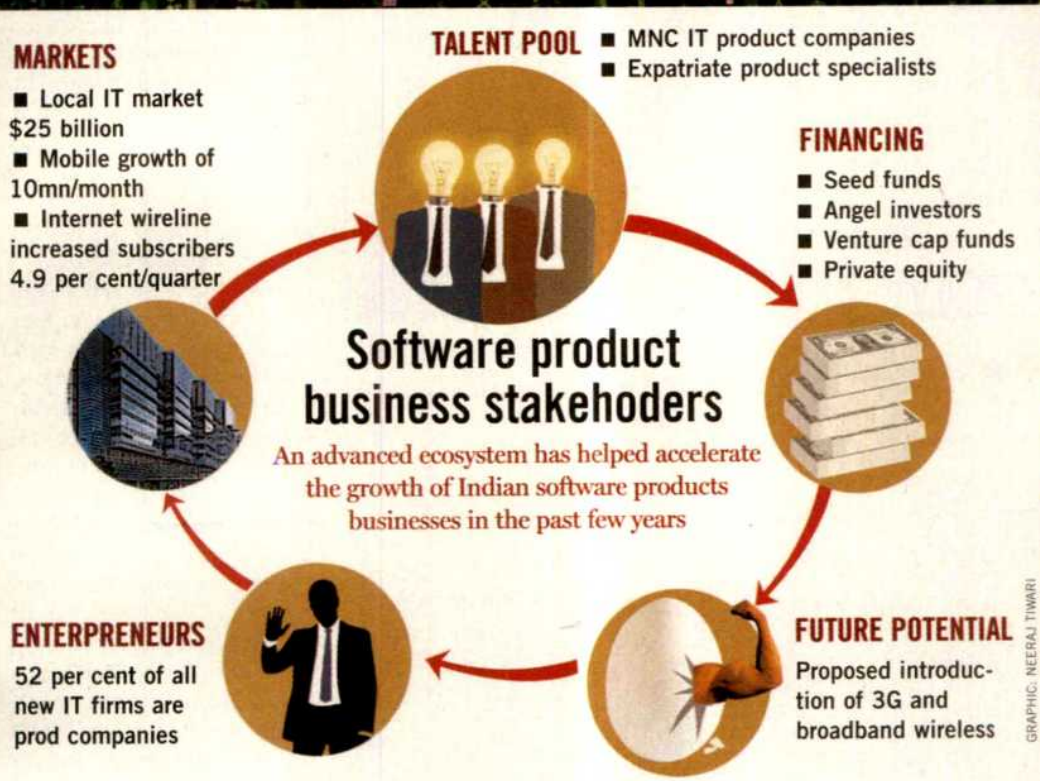
Companies such as mChek are mushrooming in India at the rate of 12-15 per month, signalling the fourth IT wave in the country. The first wave in the 1970s and 1980s created the offshoring model, which led to the birth of most of India's premier IT firms; the second in the late 1990s built up the BPO business. In the third wave from 2002-06, IT firms began setting up bases and acquiring companies abroad.

In fact, in a first, last year the industry shed decades of gender bias by giving birth to more software product companies (52 per cent) than software service companies. India's rapidly growing middle class has sparked the demand for more evolved products, and necessitated increased investments in technology. Players are also benefiting from the globalisation of Indian industry, and are leveraging their India experience in other emerging markets. This has made the domestic market a major playground for new companies to try their products locally before seeking business abroad.

So providing competition to the top 10 products companies — the big four Oracle (formerly i-flex), TCS, Infosys and 3i Infotech provide banking solution products Flexcube, BaNcs, Finacle and Kastle, respectively — are scores of new entrants.

Chennai-based OrangeScape — recognised as the top innovator for two consecutive years by Nasscom — is one such com-

Wave



pany to reckon with. Its DimensionN allows creation of Web-based applications using spreadsheets without worrying about programming. Suresh Sambandam, founder and chief executive officer, explains, "The client can create a model of the application on a spreadsheet and our product transforms it into a Web-based application."

iViz Security, another high flyer, started at IIT Kharagpur back in 2004, was selected by Nasscom as one of the Top 4 emerging product companies in August 2007 and was also nominated by the World Economic Forum for Technology Pioneers Challenge in 2008. It addresses a $10-billion (Rs 49,000-crore) global market for computer systems/network security, iViZ's SaaS (software-as-a-service), and has clients such as CNN-IBN, BT, Reliance Communications and Makemytrip.com. iViZ technology evaluates the security of a computer system/network by simulating all kinds of next-generation hacking techniques. This analysis is carried out from the position of a potential hacker, and can involve active exploitation of security vulnerabilities. Any security issues that are found are presented to the system owner together with an assessment of their impact and a proposed solution.

Expansion of such tier-II firms and start-ups has helped broad-base the industry structure, which is dominated by the Top 5 players, accounting for 84 per cent of the total revenue.

"Market indicators suggest that this segment is undergoing rapid transformation and is approaching a new phase of accelerated growth," says Subash Menon, CEO of Subex and chairman of the Nasscom Product Forum. Subex, which sells Nikira, a fraud management system, has 32 telecommunications service providers as its clients.

India is forecast to be the world's fastest

SUCCESSFUL PRODUCT PACKAGE

Indian Software Products Business 2007 (Figure 1) has a diversified portfolio; The $294 software production market is dominated by US at the moment (Figure 2)

Figures in per cent

Figure 1

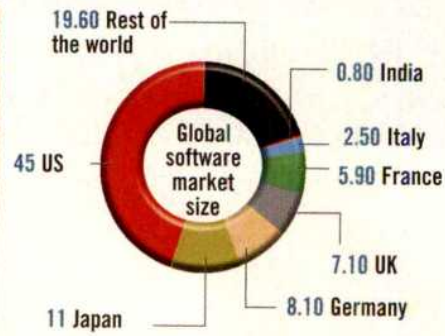


Figure 2

Source: Zinnov Analysis

GRAPHIC: SATKAR J. YONZON

BUILDING THE IT FUTURE

Software organisations have shown rapid growth in revenues in the product businesses, and have distinguished themselves in a highly competitive market with strategic initiatives

	Indian software product companies	FY 2005-06	FY 2006-07	Exports FY 2006-07	Products	Used for
1	Oracle (iFlex)	164	223	189	FLEXCUBE	Core Banking Suite
2	TCS	64	170	155	BaNCS	Banking Solution
3	Infosys	89	135	104	FINACLE	Core Banking Solution
4	3i Infotech	49	83	66	KASTLE	Secure Banking Solution
5	Subex	29	57	55	NIKIRA	Fraud Management System
6	Cranes	42	56	55	TableCurve	Advanced Analytics Software
7	Tally	34	55	3	Tally 9	ERM Applications
8	Polaris	19	46	41	INTELLECT	Banking Suite
9	Ramco	40	41	7	DecisionWorks	Analytics
10	IBS Software	NA	80	NA	aiRES, iFly	Travel, Transport & Logistics

Source: Zinnov Analysis
Figures in $ million

growing IT market over the next few years, with its share of the global software market slated to grow threefold by 2015. The IT growth and its exciting prospects have sprung largely due to the emergence of an ecosystem in the domestic market to spawn and support software product companies. Earlier, "The one big problem was that there was no ecosystem at all when we entered the space in 1993," explains Kamesh Ramamoorthy, COO of Ramco Systems.

The Talent Pool

An innovation-friendly landscape may not have been possible but for the talent pool created by some pioneering work of international product companies such as Microsoft, Oracle, IBM and SAP, and even niche software companies such as Dassault Systems and Cummins.

"When we started our operations in the 1990s, we visualised Indian engineers to meet our requirements," says Bernard Charles, president and CEO of Dassault Systems.

Over the years, MNC subsidiaries and product engineering vendors created a strong ecosystem of R&D offshoring to India. "A huge base of installed and fresh talent and the movement of expatriates into management roles are contributing to the ecosystem," says Pari Natarajan, CEO of Zinnov Consulting.

"A good ecosystem allocates the risk of innovation to different stakeholders at different stages of the product's journey. Therefore, it is essential that the stakeholders and the 'character' of a company are aligned," says Arun Jain, chairman and CEO of Polaris.

But over 85 per cent of software professionals are employed with MNC subsidiaries or Indian service providers — leaving only about 20,000 individuals in the Indian software product business. Also, the current available talent pool in India rates low on product architecture and management, product marketing, user interface and design, and release and configuration — which are critical for the software product business. But the environment has to be created. Software products are the Mecca of software development. It has taken India over two decades but today, over 600 MNCs undertake product R&D via subsidiaries in India.

At Home

One trigger for software product companies' growth in India has been the domestic IT market achieving a critical mass of Rs 1 lakh crore ($20 billion) in 2008. The Nasscom-Zinnov study anticipates that products revenue from the domestic market will grow to $4 billion (Rs 19,600 crore) - $5 billion (Rs 24,500 crore) by 2015 from the current $1.4 billion.

Storage and retail-focused solutions are seen as immediate opportunities in the domestic market; enterprise application is expected to present the largest. "The domestic market is growing rapidly, especially in the automotive

sector and also with respect to high-end, multiple-product variants," says Krishna Narasimhan, senior-vice president of corporate business development at Cranes Software. The company sells SYSTAT, a scientific statistical software for technical professionals and TableCurve, a program that allows for curve fitting and data modelling for research. "SaaS is the next big thing," adds Narasimhan. "This model revolves around a product wrapping a complete solution around it".

Companies that *BW* spoke to also expect the pay-as-you-grow model to find increasing acceptance. Research by experts such as McKinsey, Gartner and Forrester says, maximum IT spend for the next 7-10 years will be on modernisation of IT for sectors such as banks.

Way To Go

The environment is warming up in other ways as well. Spread across India, 38 incubation centres are actively focused on assisting technology start-ups with funding and mentorship. Most venture capitalists (VC) are very bullish. Since 2005, the total VC investment in India grew at a CAGR of 42 per cent to reach $543 million (Rs 2,661 crore) in 2007. Also, industry bodies such as Nasscom and The Indus Entrepreneurs (TiE) are mentoring early stage start-ups.

Finally, a substantial financing architecture comprising seed funds, angel investors, venture capital firms and private equity firms has also arrived in the past five-seven years, making it easier for new ideas to get the backing (see 'Right Here Waiting' on page 36).

Funding apart, there is a long way to go. "We have a lot of work to do and have identified all the stakeholders who can make it happen," says Som Mittal, president of Nasscom. "This [software] product segment in India has the potential to grow to 10 times its current size over the next decade".

Indian software companies, on their part, are making concerted efforts to enhance brand image, gain stature and credibility, increase time-to-market capabilities, and respond quickly to changing market requirements.

So, will an Indian company ever develop and own a branded product such as Microsoft Windows or Google? In the long term, there is real hope.

With inputs from Venkatesh Ganesh in Mumbai

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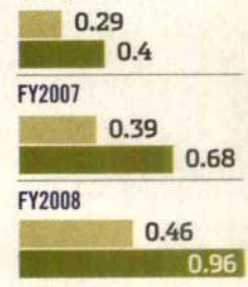
Rising Revenues

Indian software product busines revenues



Figures in $ billion
Source: Zinnov Analysis

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IT SPECIAL

Beginning To Hatch

by venkatesh ganesh

SHAPING FUTURES: While Indian incubators are known for their technology expertise, they are yet to develop a world-class product

THE busy second floor at the Society for Innovation and Entrepreneurship (SINE) in IIT Mumbai defies all indications of a global economic downturn as young people armed with engineering, math and enthusiasm work on start-up ventures. SINE has about 50 start-up companies under its wings in an initiative partly aided by the Indian government, along the lines of those found in the Massachusetts Institute of Technology (MIT) and Stanford. Fifteen such incubation centres have sprung up across some of the IITs and IIMs, and they cater to 300 companies based in India and abroad. "When the incubation centres started, our dreams started getting a shape," says Professor G.R. Shevare, director of Zeus Numerix, which makes numerical software solutions for fluid dynamics, one of the firms incubated in IIT Mumbai.

Tech start-ups are warmed up in incubation centres

IITs, especially those in Mumbai, Chennai and Delhi, have been at the forefront of incubation efforts, but others are beginning to play catch up. The International School of Business (ISB) and International Institute of Information Technology (IIIT) in Hyderabad are also incubating companies. Last November, the Punjab government announced the setting up of a knowledge city in Mohali; its plans included a biotechnology incubator. ISB has a tie-up with The Indus Entrepreneurs (TiE) for identifying and, later, funding start-ups incubated by them. The Amity Innovation Incubator, a registered not-for-profit society in Noida, has incubated 12 firms till date, and N.S. Raghavan centre for Entrepreneurial Learning (NSRCEL) has incubated some 13 firms.

"I would say that the past two years have contributed significantly to the maturing of Indian tech start-ups," says Professor S. Sadagopan of IIT Mumbai. "For example, ICICI Bank and Asian Paints, earlier the preserve of Hewlett-Packard or IBM, now use home-grown products."

The IITs' (other than Guwahati and Roorkee) start-up corpus funds come from the regional IITs, the Department of Science and Technology and IIT alumni, and are valued at between Rs 60 crore and Rs 120 crore. In each project, they invest Rs 1-25 lakh. Among companies that benefited from early funding are Webaroo, which makes Web content accessible on portable devices; Idea Forge, which makes alternative power sources for electronics gadgets; Vegayan Systems, which provides software for communications networks; and Seclore Technology, which works for information usage control.

As with MIT or Stanford, faculty is involved in 13 companies incubated in IIT Mumbai; 12 companies in the IIMs claim the same. "Being technology-oriented, we are still learning the ropes when it comes to strategy," says Shevare.

It is all slow going, though. Consider this: nine of the 30-odd companies incubated in IIT Mumbai have graduated and do not require any assistance from the institute. Out of the nine, venture capitalists (VCs) invested in a few but the $30 million (Rs 147 crore) they received by way of funding, when compared to private equity (PE) and VC investments, is a small drop in the ocean.

"A seed funding ecosystem, in its true meaning, is non-existent in India," says Kristi Lafleur, executive director of TiE Midwest. According to Venture Intelligence, a research firm, PE and VC investments in India totalled $9.5 billion in the period from January to September 2008. "While Indian incubators are known to have tech prowess, we are yet to see them build a strong brand/product that could be a world-beater," says Rahul Khanna, director of Clearstone Ventures.

With inputs from Dhanya Krishnakumar

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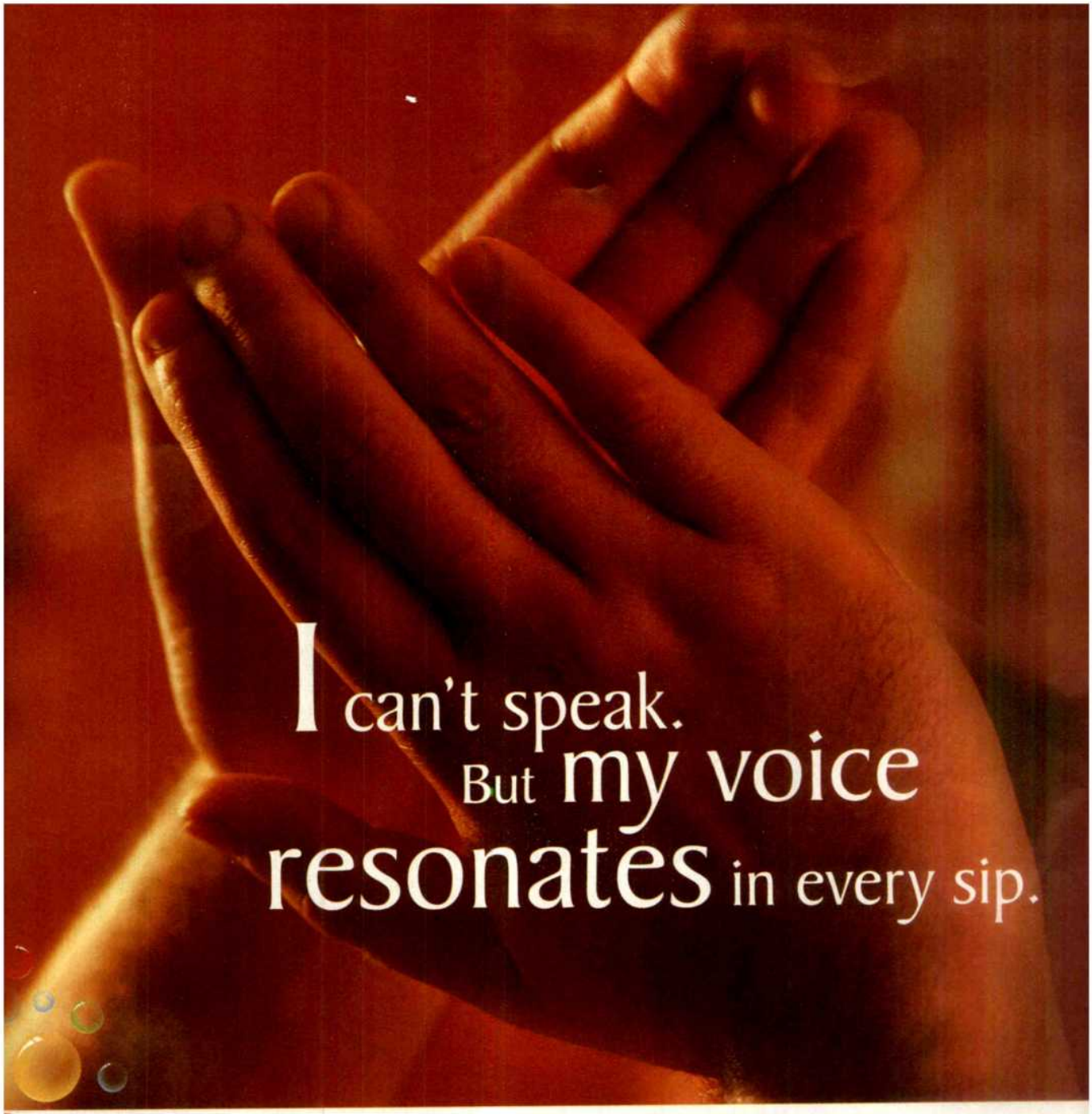

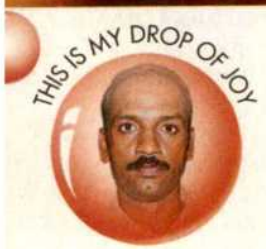

McCann/Coke/1167/08

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IT SPECIAL

Right Here Waiting

by dhanya krishnakumar

Money and ideas are already here. The twain must meet

ILLUSTRATION: ANTHONY LAWRENCE

BEHIND all successful businesses, there is money. In India's software product development arena, money is coming from venture capital (VC) funding. This has never been more so than in recent years. Over the years, the capital ecosystem in India has become larger and more organised. Today there are a large number of VC/PE (private equity) firms and a few formal angel investor networks operating here. There are also many high net-worth individuals (HNIs) interested in the Indian technology sector.

"Investments in Indian product companies have increased multi-fold in the past three years because founders of such companies come with experience in products," says Sudhir Sethi, chairman and managing director of IDG Ventures India Advisors, which has invested $12.2 million in five Indian product firms. "The emergence of venture and angel investors who are knowledgeable about the Indian product market, and the emergence of role model product companies such as Ramco, Tally and Subex also go a long way in future successes," says Alok Mittal, managing director of Canaan Partners.

Since 2005, VC investment in India has grown at 42 per cent CAGR to reach $543 million in 2007. Over the same period, funds invested in software products have grown at a slightly faster 43 per cent CAGR, from $76 million in 2005 to $156 million in 2007. Most VCs are extremely bullish about Indian software product firms. "There are glaring needs from many verticals in the Indian market, such as financial services, retail, healthcare, travel, entertainment and education, and all these are extremely attractive propositions for entrepreneurs. We are looking for ventures that address the Indian consumers' needs," says Sanjay Anandaram, co-founder of JumpStartUp Venture Fund. It has also helped that, over the years, Sebi has made multiple policy changes in improving the norms for foreign VC firms.

There are close to 275 VCs, 350-plus PE funds and an estimated 225 angel funds operating in India. They include blue-chip VCs such as IDG Ventures, Helion Advisors and Canaan Partners. However, "The rate of change is excruciatingly slow despite the fact that product firms are on the rise in India," says Sanjeev Aggarwal, co-founder and managing director of Helion. "A few enablers, like a coming together of returnees from Silicon Valley who have been working for products, and those who have grown up in India with an understanding of the market, can help fuel growth." Already, multinationals such as Google, Cisco, Intel, Microsoft, Sun Microsystems and Motorola have created funds and programmes to actively nurture new product ideas.

One key drawback is that angel investing, which played a major role in software product development in the US, is very thin on the ground in India, though VC firms are increasingly willing to fund first-time entrepreneurs. Forming angel networks of HNIs and expatriates across the country will foster early stage funding in India. Also, micro funding options by VCs with a focus on pure technology funds can bridge the gaps in the angel ecosystem and boost start-up activity. But, "euphoria is necessary as this space needs cheerleaders", adds Anandaram. "At the moment, all the necessary ingredients exist. It's only a matter of drawing the linkages before things can take off."

dhanya.krishnakumar@abp.in

FAT PURSE

VC investments by software product categories in 2007 (in per cent)

Source: Zinnov Analysis

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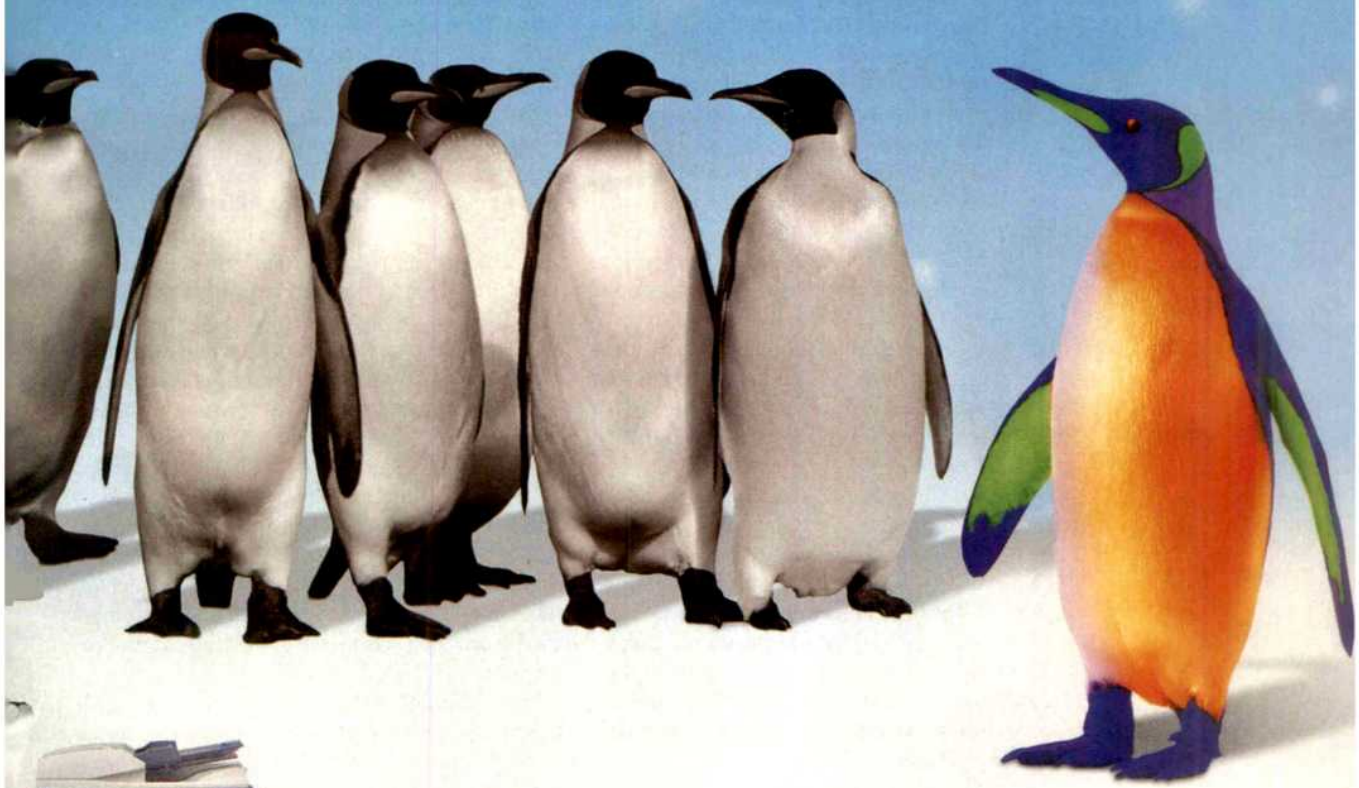

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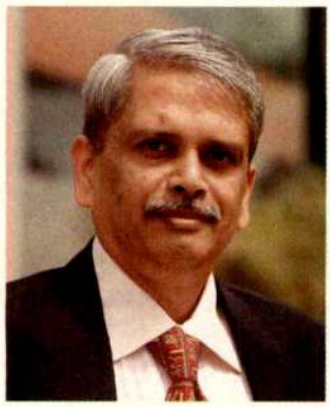
IT SPECIAL

Commom Mission

by s. gopalakrishnan



INDIA HAS BEEN AN IMPORTANT CONTRIBUTOR to global product R&D for over two decades. Companies such as Texas Instruments realised India's R&D potential in the 1980s. Today, there are over 600 multinational companies undertaking product R&D from India, including companies such as Microsoft, SAP, Oracle and Yahoo! The traditional IT services industry has also expanded its capabilities to offer outsourced product development services. A number of patents have been filed from Indian subsidiaries of global corporations. These factors have augmented the perception of India's capabilities, with Indian firms now being seen as important global players.

However, in spite of capability in product R&D, India has not realised its global potential. Lack of risk funding has been an impediment. Till the early 2000s, venture capital (VC) funding for software products was hard to come by. A product business requires significant upfront investments, and returns can be expected only after three-five years. As a result, funding was limited. But since 2005, this has been changing and VC investment in the product segment has accelerated. As per a Nasscom software product study, VC funding has grown at a CAGR of 43 per cent, from $76 million in 2005 to $156 million in 2007. Incubation centres are coming up across the country, assisting companies with funding and mentoring. Since 2001, about 371 software product start-ups have come up; over two-thirds were created in the past three years alone. The growing technology adoption in the domestic market is further fuelling VC investment.

Indian software product and service firms can forge greater partnership for mutual benefit

Although the availability of VC and private funds has increased, there is scope to strengthen the investment ecosystem. Increasing our focus on early-stage investing and mentoring would further the growth of our product industry.

The Indian product industry has seen more success in application software than system software. Some of the innovative companies/products such as SunTec, Finacle and i-flex compete and win among the world's best. Our strength continues to be in industries such as BFSI (banking, financial services and insurance), telecom and retail. India must continue capitalising on its domain expertise and domestic demand to build enterprise application software products for the global marketplace. In such an environment, companies must acquire intellectual property (IP) to accelerate growth. Other areas such as business intelligence, social commerce and mobile applications also hold great promise.

Indian product and service companies can forge greater partnership for mutual benefit. Product companies can benefit from established customer and geographic reach of the services companies, while services companies can utilise the products to provide a complete solution — encompassing application, system integration, infrastructure and BPO services. New models such as software-as-a-service (SaaS) are prompting companies to think in this direction. Large service companies are already creating product offerings that can be provided in a SaaS model. They are creating business applications owned and operated by them in their data centres, and providing associated services such as system integration, infrastructure management and BPO services. This model is especially attractive to customers in the current economic environment as they pay in a subscription model.

India Inc. needs to continue strengthening the talent pool for products. While progress in product development capabilities has been encouraging, we need to improve marketing, management and user experience capabilities. This calls for a closer partnership between industry and academia. Our ability to strengthen these capabilities will determine whether or not we will be able to compete with the best and succeed.

India has built a great brand for itself in the world of IT and IT-enabled services. We need to achieve a similar feat for software products. This requires collective participation of product companies, industry bodies, academia and the government. We are at an inflection point where we can expedite this progress. By enhancing capabilities, building a strong investment ecosystem and choosing the right offerings, the industry can reach its goal of $9.5-12 billion by FY2015.

The author is CEO and Managing Director of Infosys Technologies

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Godrej Properties Limited is proposing, subject to market conditions and other considerations, a public issue of its equity shares and has filed a Draft Red Herring Prospectus with SEBI. The Draft Red Herring Prospectus is available on the website of SEBI at www.sebi.gov.in and the respective websites of the BRLMs at www.icicisecurities.com and www.kotak.com. Investors should note that investment in equity shares involves a high degree of risk and for details relating to the same, see the section titled "Risk Factors" of the aforementioned Draft Red Herring Prospectus.

Technology Goes Green

With everything else going green, why should information technology be left behind?

Everything in information technology from processors to data centres is following a new trend — that of going green. It is not really possible to define green IT as it is not made of one single thing. Any process, related to IT, that results in low energy consumption, energy efficiency, or is environment friendly can be termed as green IT.

Whether it is sheer economics that is fuelling this trend or a sense of social responsibility, one cannot ignore the fact that a lot of organisations are trying their best to increase their 'greenness'. It is important to keep in mind though that given the current economic scenario, the economic benefit might turn out to be a bigger driver for companies to adopt green IT.

Adopting green IT, it seems, is now a matter of good business sense. There are two main reasons for this. One, the consumer being more aware, expects a company to be more environment-friendly and two, it never hurt anyone to achieve a higher level of productivity using the same or even less resources. The benefits of green IT come from the definition given above: low energy consumption means a decrease in power bills, energy efficiency means less resources being used, and environment friendly means a safer, greener planet, in addition to a better company image. Another benefit of green IT is an environment friendly workplace.

Though many a times the cost of green products may be higher, this being a big hurdle in the acceptance of green IT, the thing to keep in mind is that the return on such investment is higher.

Introducing green IT in an organisation usually starts with managing the power of computers (desktops and laptops) by putting them onto sleep mode when not in use, switching them off before leaving work etc. These simple steps go a long way in decreasing the harmful effects of IT on the environment.

Ways Of Going Green

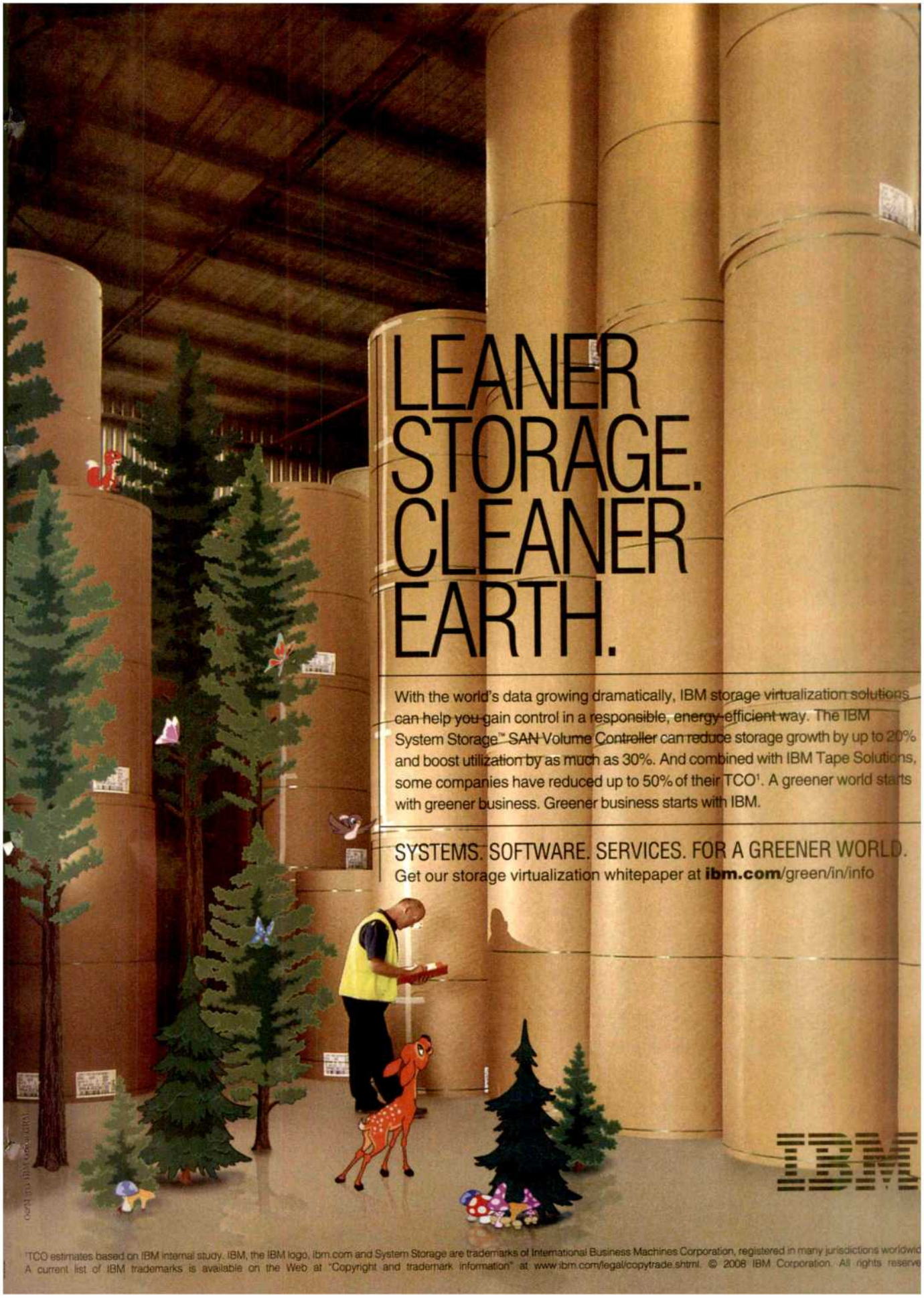
- **E-waste recycling**
- **Reduction in power consumption of servers**
- **Turning off desktops and monitors at night**
- **Remote management**
- **Installation of PC power management software**
- **Constructing offices in green buildings**
- **Virtualisation**
- **Strict print-only-when-needed policy**

Data centres usually get a lot of flak because of increased awareness about their high power consumption, but companies are now putting this on high priority and finding ways and means to reduce the power consumption per unit area in data centres by using technologies like blade servers, more efficient cooling solutions etc.

Another interesting aspect of green IT, though many might not directly relate IT to it, is green buildings. Many IT companies are building LEED-rated buildings and campuses. A green building basically takes sustainability into consideration right from the stage of construction, resulting in a structure that is not only energy-efficient after it is built, but also uses minimum energy resources while being made.

In the long run, an organisation needs to focus on things like implementing green strategies, setting up rules and regulations, making sure that all the employees are on the same page and understand the need to follow these, application optimisation, collaborating with companies that offer green solutions etc.

There are several green IT standards in place around the world like Energy Star, ISO 14000/ISO 14001, Renewable Energy Certificates etc and it is heartening to see many IT companies in India going in for these certifications and standards.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Moving Into Higher Gear

HISTORICALLY, INDIA HAS HAD A CHEQUERED history in developing software products and in creating companies that can live and breathe software products. The sparse few that have been formed, have only made a marginal impact in the global arena. *BW* and Nasscom organised a roundtable in Bangalore to discuss whether India has a future in the global software products space. Participants included Som Mittal, president of Nasscom; Subash Menon, chairman, managing director and CEO of Subex Systems; Bharat Goenka, managing director of Tally; Sanjay Swamy, CEO of mChek; Pari Natarajan, CEO of Zinnov Consulting; Sudhir Sethi, chairman and managing director of IDG Ventures; and N. Kailashnathan, CIO of Titan. The discussion was moderated by Rajeev Dubey, deputy editor of *BW*. Excerpts:

Rajeev Dubey: Considering that globally we are moving towards bundling products with services, how justified is this obsession with software products?

Subash Menon: Products have a life of their own. Services go around the products. One cannot stand in for the other. You have a delivery model that is SaaS (software as a service). That is what is prompting this question to some extent. But then SaaS is just that, a delivery model. You still need a product to deliver SaaS. You cannot have a service being delivered as SaaS. India as a country has to get going on the so-called software space, as is understood globally, then you have to have your own products that are expected by the customer.

Dubey: But you could also graduate to higher value-added businesses and various other aspects of services. Do we have to be in the product business?

Som Mittal: For the nation, it is important that we cover up every one of these. I think we cannot exist in the world by just the export model. Today, we have $23 billion of domestic market and we can certainly use this as a test bed to develop products that are relevant to India, and which have similar relevance to developing countries.

Dubey: If we must make products because the domestic market provides us the test bed, is that how Tally saw the market when it entered the domestic market? What challenges did it face invading this space?

Bharat Goenka: I am a sure believer of the fact that the product business consists of only two things — invading and access. Those two challenges were there 20 years ago, and continue to remain today. How do you engineer a product if services are not required? We looked at the domestic market for sheer size. We did not know how many years it would take us. We are now fairly important in the Middle-East. We have started to become important in Africa. But the reality is that the bulk of my organisation in Bangalore still gropes in trying to solve the India problem.

Dubey: And how did mChek go about developing the product? How did you see the opportunity?

Sanjay Swamy: There are a lot of similarities. Ours is much more of a consumer focus. What we found was that there was a niche for a certain category of products where the things that I took for granted are actually not that much of an issue in India, and one can complain about it or one can see an opportunity in it. We ended up looking at it as an opportunity.

Secondly, if there is one market (in India) that is growing faster than in any other part of the world, it is the mobile space. India, especially in the mobile and financial services space, is a microcosm of the whole world. You have customers as sophisticated as in Silicon Valley as well as first-time users as in the remotest parts. You have to serve a common product to the entire gamut of subscribers.

Dubey: A Nasscom study has found that last year was a bumper year for setting up product companies. Why this sudden interest in the product business?

Pari Natarajan: There are a number of reasons. We started comparing with other ecosystems, such as those in Silicon Valley, and looked at factors that made them powerful in creating these numbers of product companies. These factors have been termed possible in India for a number of reasons.

One, we had multinational companies coming into India and starting to make complete products out of the country and starting to file patents from here. And you have the talent pool, which has product capability. Then you have had expatriates coming back to India, and a number of them have built product companies before. These are experienced people, and they are starting companies. They have a domestic market that is very interesting for companies. So one reason is domestic market.

CONFIDENT NOTE: (From left) N. Kailashnathan, Pari Natarajan, Subash Menon, Som Mittal, Rajeev Dubey, Sanjay Swamy, Bharat Goenka and Sudhir Sethi

the BW-NASSCOM roundtable 2009

The other reason is in terms of role models. These are companies that have done it before, companies such as mChek and Tally that have been successful, and in spite of an environment where the ecosystem was not there. On top of that, the venture capital industry that has come over the past five years, is one which has been funding. Last year, $156 million were spent by venture capitalists in funding product firms.

Dubey: We must give credit to Sudhir Sethi for this...

Sudhir Sethi: I call it the Brownie movement, which has been seen in the past two years in terms of what is happening on the entrepreneurial side as far as product is concerned. Two to three years ago, the number of venture investors used to be from a financial engineering background. Whereas, in the past three to four years, a lot of industry people have come into the venture world. Many product companies have been funded by people with very deep operating backgrounds who have entered the venture industry. That was a very big thing per se.

Secondly, as a fund, out of our $50 million, we have committed $40 million to products. Interestingly, two of them are serial entrepreneurs. We are finding more incidence of serial entrepreneurs doing the second or third attempt at the company, and it really does not matter whether the first or the second has been a success or not. The experience itself is worth its weight in gold.

Dubey: There are no negative points for failure.

Mittal: I think in the past three years, the economy has boomed here. The demand for IT has been very high. Stockmarkets were doing well, the valuations are good. That has encouraged people to take risks as well. And I don't think even with the current economic situation, everybody who is in product realises that it is not a short-term gain. They do not get moved by the shorter term. The confidence that the industry has achieved, the maturity that is coming, is creating opportunities.

For full text of the roundtable, visit *www.businessworld.in*

IT SPECIAL

Our Own Silicon Valley

by ajay kela

HISTORICALLY, THE SOFTWARE PRODUCT industry has been dominated by Silicon Valley in the US. A few companies in Europe, too — such as SAP — have seen outstanding success. In comparison, the Indian software industry is nascent; and Indian companies, except for the odd few, are crawling babies. But the course of history is set for a remarkable change. One of the predictions I have is that Bangalore will emerge as the Silicon Valley of the East by 2015.

Dramatic as this may sound, the signs of evolution in the software product ecosystem are all around us. This is evident on two fronts. First, nascent software product companies are mushrooming in India. And second, established software product companies around the world are increasingly outsourcing their product development activities to India, thus changing the ecosystem.

There are four spokes in the ecosystem for software product development to flourish: entrepreneurs, software engineering talent, availability of capital, and access to markets. Recently, product services companies such as Symphony Services are also acting as catalysts to the software product ecosystem — a fact that is not only accelerating and strengthening the first two spokes but, also providing a framework for software product companies worldwide to raise productivity, accelerate time to market, increase quality, and provide the best talent through global access to such talent.

Bangalore may become East's Silicon Valley, thanks to rapid expansion in software ecosystems

To begin with, it is entrepreneurship that is helping boot the ecosystem. With the Indian economy vibrant, Indians returning home from overseas are increasingly setting up their own companies in India. Add to it the fact that the new generation of Indians are more entrepreneurial by nature. Helping them along are organisations such as The Indus Entrepreneurs (TiE), the National Entrepreneurship Network (NEN) and Nasscom. We are reaching the tipping point and now have a robust entrepreneurial ecosystem forging this industry forward.

Entrepreneurs need software product engineering talent. The good news for them is that an army of engineers is rapidly being groomed. Traditionally, Indian IT industry has focused on building software for internal use. If a Bank of America wanted internal efficiency in its operations, it would specify the product functionally and turn to an Indian service provider to build the software product. Thirty years and a $40-billion industry have honed engineering skills yet this has been limited to catering to a small internal user-base. That was the first stepping stone. Post the dotcom bust of early 2000, software product companies that built commercial grade products used by millions of end-users have en masse moved their product development activities to India. Result? Driving down Outer Ring Road in Bangalore gives you the feel of Highway 101 in Silicon Valley. This is accelerating the development of the second spoke — building an army of software product engineers.

There is something else that has begun to lend Bangalore the flavour of Silicon Valley; many of the Valley's venture capitalists are setting up shop here, some with $100-million funds focused on India. Intel Capital, Sequoia and NEA Indo-US Venture, among others, have now created India specific funds. Along with the capital, they too are sending their investment experts to mentor the entrepreneurs and guide their companies. This is yet another harbinger of things to come in the software product space in India.

Finally, access to markets is critical — and as far as India is concerned, this is the weakest spoke in the ecosystem. For Indian companies, US and European markets will continue to dominate in the short term. In a bid to reach these markets, Indian firms will offshore their sales and marketing functions, a model that is proving successful. In parallel, the Indian market is evolving — even today the retail and telecom space in this part of the world, along with China, Japan and Korea, are bringing vast opportunities for foreign software product companies.

It is evident that the software product ecosystem is expanding. Talent is scaling up thanks to software product offshoring; capital is available to the point where even high net-worth individuals are turning into investors, and markets in this region are maturing. Would it be risky to predict that by 2015 Bangalore will become the Silicon Valley of the East? You take a guess!

The author is Managing Director and Chief Operating Officer of Symphony ServicesK

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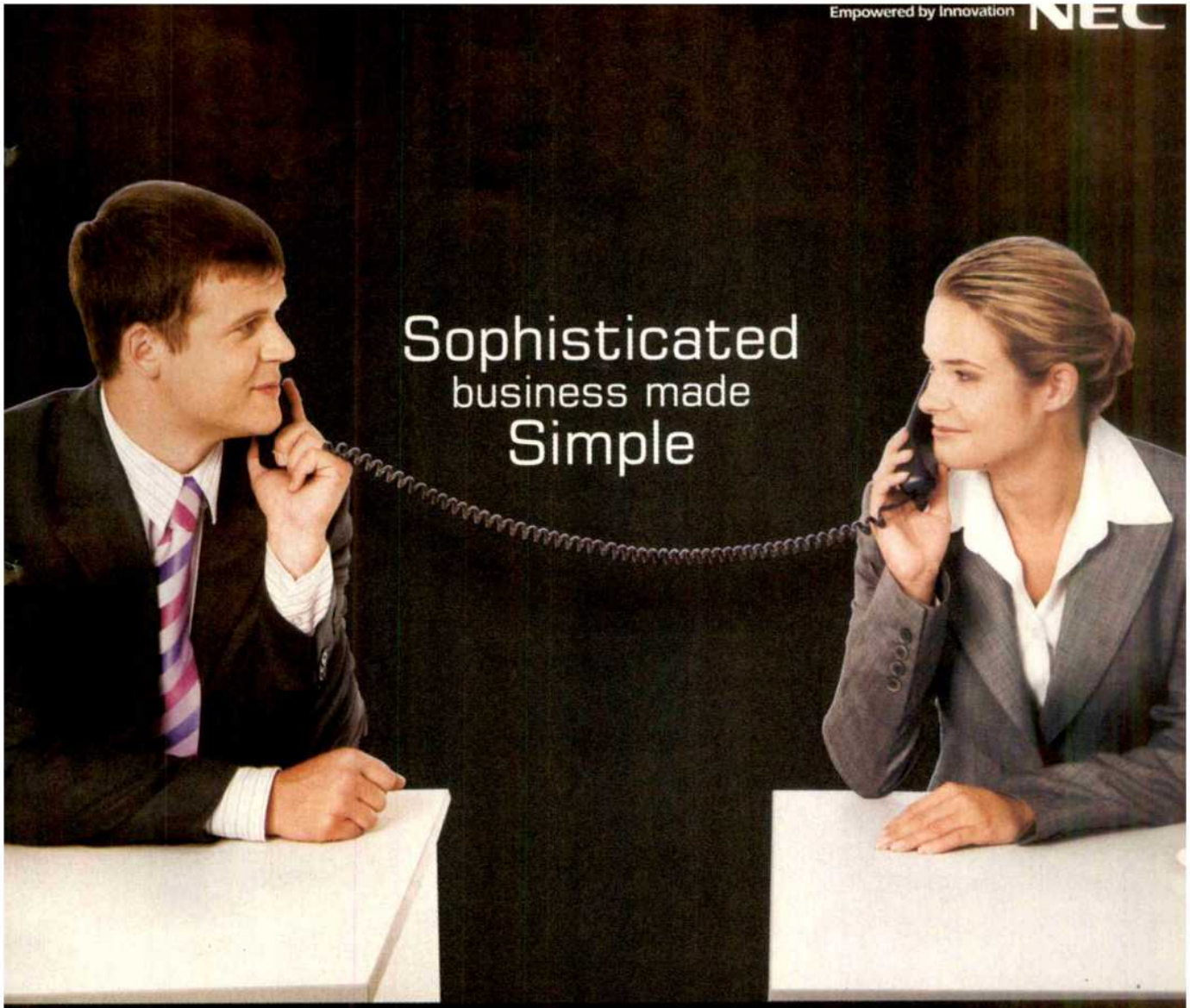

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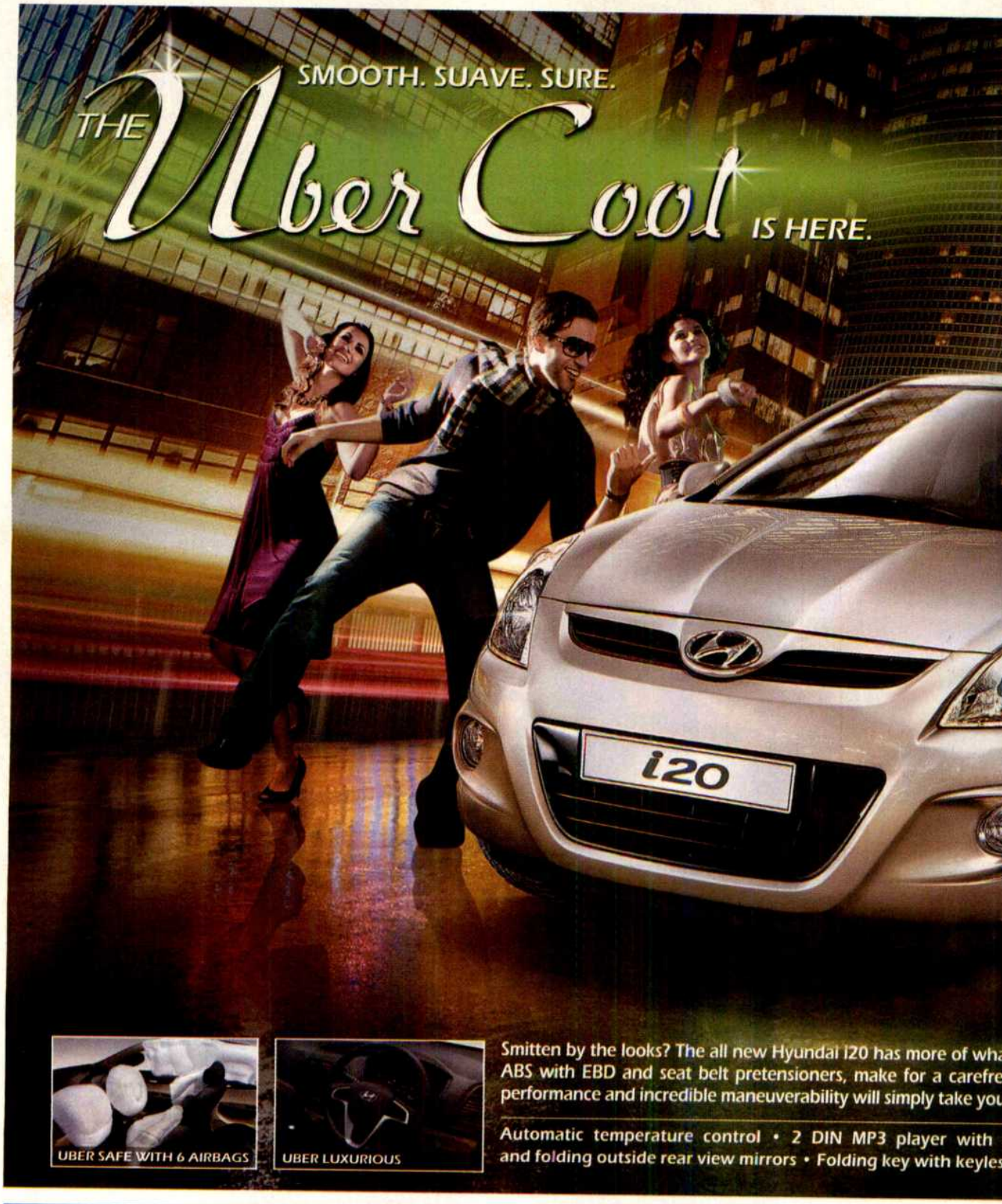

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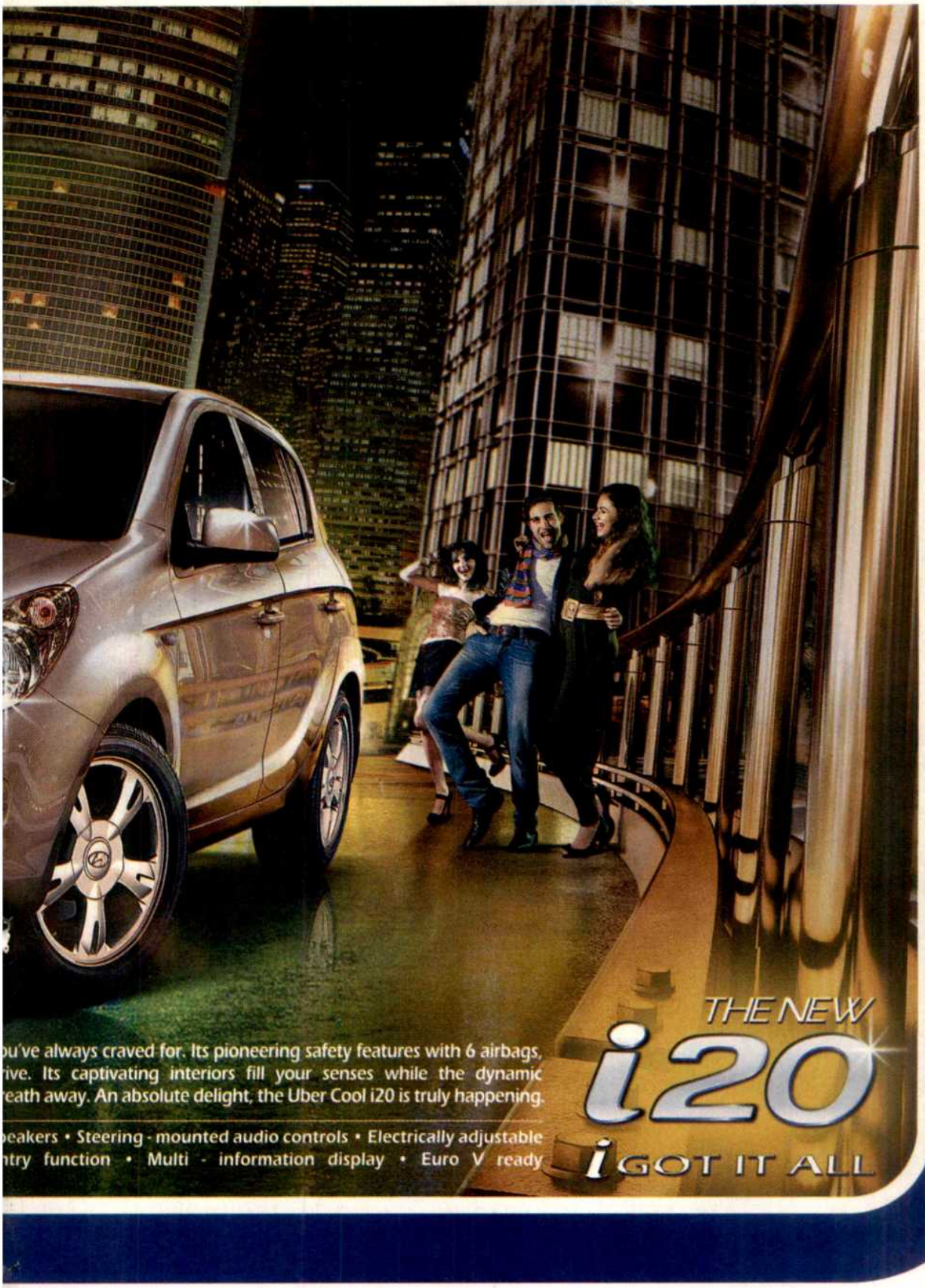

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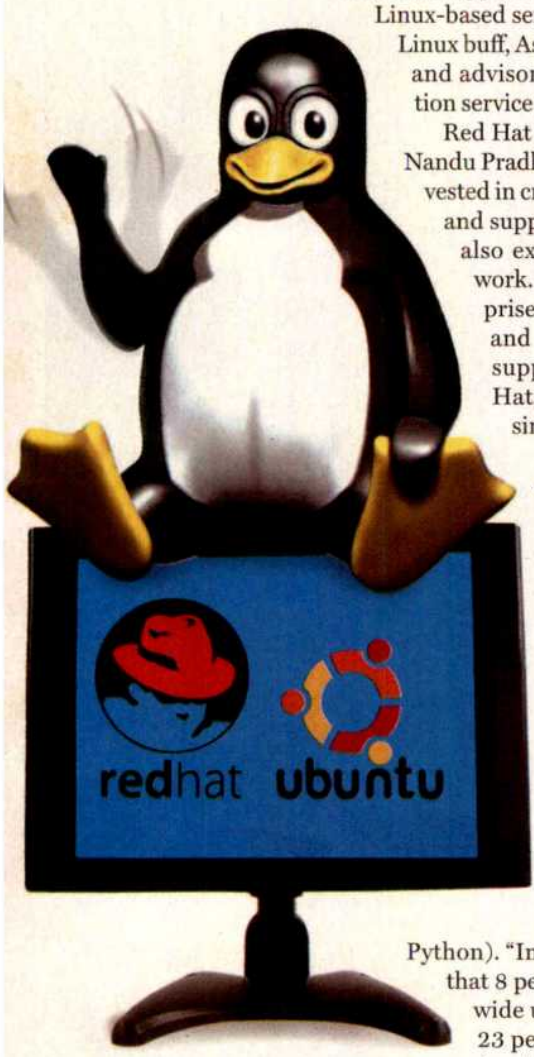
IT SPECIAL

A Quiet Revolution

by rajesh gajra

INDIANS generally take to free or low-priced stuff. But in the case of operating system (OS) software, Microsoft's Windows versions such as Vista, Windows 7 and XP still score over Linux-based operating systems such as Ubuntu and Red Hat. "Deterrents are things such as lack of post-sales technical support when you want to replace a Linux-based server with a new one," says a Linux buff, Ashutosh Bijoor, also founder and advisor of Reach1to1, an application service provider



Red Hat India's Managing Director, Nandu Pradhan, disagrees: "We have invested in creating a global engineering and support centre in India. We are also expanding our partner network. For example, Linux Enterprise Server loaders such as HP and Dell have back-to-back support agreements with Red Hat, and offer customers a single window."

A mid-sized firm can save anywhere between Rs 1 lakh and Rs 1 crore on its IT expenses if it uses Linux. The maximum saving is on account of upgradation, which is free in the case of Linux, it being an open source application.

Unlike in India, companies are more receptive to Linux in the West. Large Web technology services such as Google, Amazon and Yahoo! use Linux, Apache, MySql and Perl (or PHP or Python). "In 2008, our survey showed that 8 per cent of developers worldwide use Linux as a host OS and 23 per cent use it for secondary development," says a spokesperson of US-based Evans Data Corporation, which carries out market research work for the software development industry. "India's usage of Linux is in line with or slightly less."

A handful of big companies in India also decided not to be part of the Windows-using herd.

Linux may not be as popular as Windows, but its users vouch for its efficiency

For instance, Centre for Monitoring Indian Economy (CMIE), one of the largest economic and corporate data company, uses Linux in all its computational operations. "We have a lot of applications that are intricately woven with each other, and Linux has adequately suited our requirements as well as saved a lot of costs," says Shobhana Vyas, head of IT at CMIE. Banks such as UTI, ICICI Bank, HDFC Bank and Canara Bank also use the OS along with IBM, Life Insurance Corporation and the National Stock Exchange. Red Hat claims that Airtel handled millions of short text messages sent on television game shows *Kaun Banega Crorepati* and *Indian Model*, using its Enterprise Linux OS.

"Linux, as a platform, has been getting better in the past five years, and that is why companies are willing to try it out," says Krishnan Thyagarajan, managing director of Quest Software. However, he points out that Linux doesn't have a roadmap for the next three years unlike Windows.

Smaller businesses, internationally, have been wary of using Linux for very different reasons. A Google official, Douwe Osinga, currently based in India, writes in his personal blog, "If you are a small company, doing some in-house development, you will probably stick with some MS Office/VBScript combination. Linux is hard, Windows is easy."

Strangely, in India, some small firms do not agree with Osinga. Reach1to1 uses Linux to cut costs and for "superior performance" for its clients that include Rediff.com. "Linux has been designed for bottoms up use, and in all its layers it offers a highly stable architecture," says Bijoor.

Companies that are using Linux platforms are carrying on regardless of Microsoft's clout and power to influence Linux users. It is the faith they have shown that Linux is banking on in India.

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On New Legs

by dhanya krishnakumar

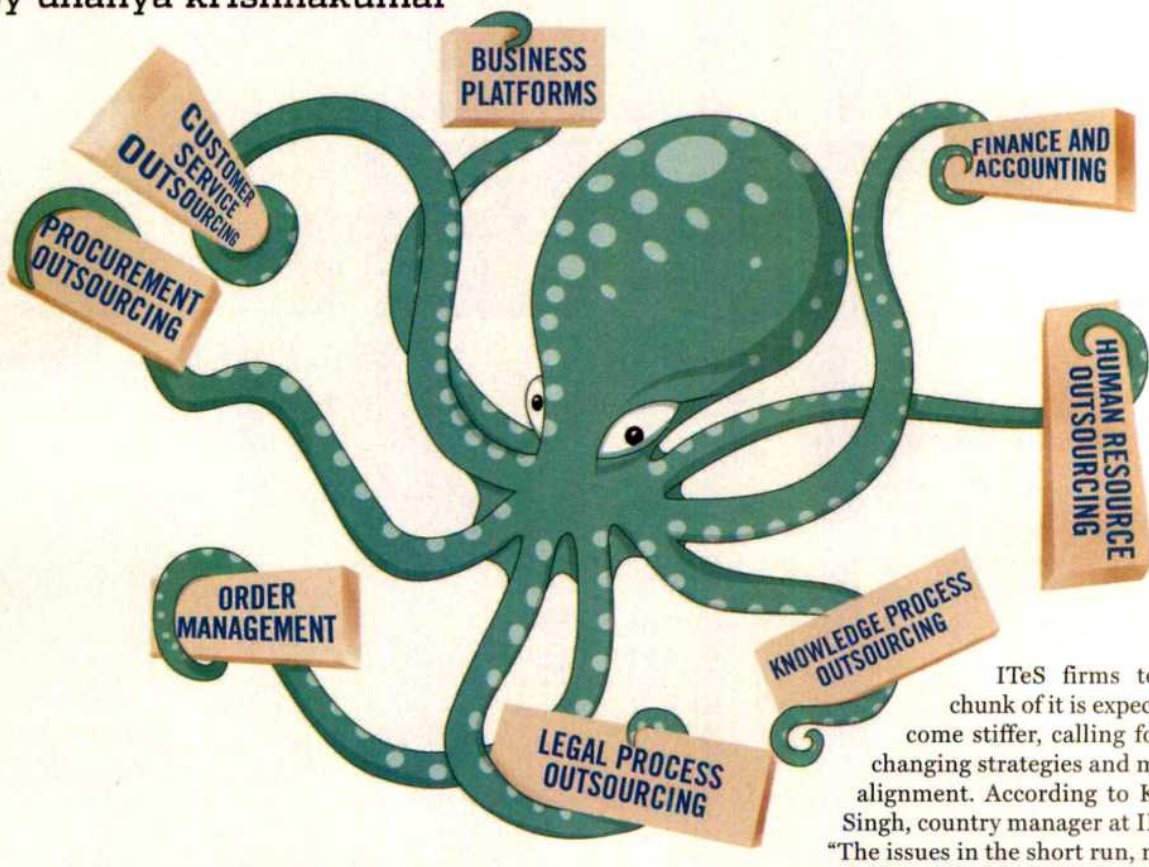

ILLUSTRATION: ANTHONY LAWRENCE

UNDOUBTEDLY, 2008 was a year of difficulties for the Indian IT-enabled services, or ITeS industry. The next 12 months could be tougher. Service providers are already feeling the effects of decreased margins as IT budgets for outsourcing are shrinking. This is evidenced by drying pipelines, cancelled bookings and increased pressure to deliver value. Caution seems to be the overarching sentiment as market intelligence firm IDC India predicts that the domestic Indian IT/ITeS market will grow at 13.4 per cent in 2009, the slowest since 2003. It grew at a whopping 53.2 per cent in 2008 to report revenues of Rs 6,846 crore (from Rs 4,468 crore in 2007).

As the pie gets smaller, competition among ITeS companies change tack to tide over the financial downturn

ITeS firms to grab a chunk of it is expected to become stiffer, calling for rapidly changing strategies and market realignment. According to Kapil Dev Singh, country manager at IDC India, "The issues in the short run, more pronounced throughout 2009, will be productivity, cost savings and customer retention."

Biggies such as Infosys, Wipro are slowly trying to move to a higher margin business model. As V. Balakrishnan, CFO of Infosys puts it, "We keep hiring anywhere between 10,000 and 30,000 people in a year. At this rate we will suddenly have over a million people and we won't be able to handle that. For long term sustenance, we have to focus on increasing the revenue productivity of our people."

The Road Ahead

Perhaps the biggest challenge for Indian players is the pressing need to move up the value chain into business consulting, a domain dominated for decades by firms such as IBM and Accenture.

Indian outsourcing firms need to invest heavily to secure a position in this arena. According to Manoj Mohta, head, Crisil Research, "The inability of Indian tier-I players to offer premium service lines such as consulting, system integration

is exacerbated by the limited effort towards developing intellectual property-based products."

While still grappling with the slowdown, Indian companies have to contend with newer service delivery geographies that are emerging with niche capabilities. A report by Tholons Advisory says the Philippines has exhibited spectacular growth, with business process outsourcing (BPO) export value aggregating close to 50 per cent of India's. Similarly, Vietnam-based firms have come up as alternatives to Indian service providers, with their aggressive strategies to increase traction in the global market. Now, with near shoring becoming an attractive option for processes requiring the same time zone presence, Latin America with superior cost dynamics is expected to appeal to Europe and US businesses as an offshoring destination. Also since it provides Spanish language capability as an added bonus.

Forced into a corner, Indian IT has begun looking at new markets to reorganise their product portfolios, and offering new service lines. Top Indian firms such as Infosys and Wipro are expected to expand their global footprints and open delivery centres in China, Latin America, Eastern Europe and North America.

Outsourcers are also under pressure to differentiate as clients look at vendor consolidation. Large clients could move towards single vendor sourcing as opposed to the best of breed solutions for specific sourcing requirements, which tend to cost more. But Viral Thakkar, executive director of IT Advisory at KPMG says, "If you stick to one vendor there is the proverbial risk of keeping all your eggs in one basket. People might opt for a primary and secondary vendor especially in niche areas."

Adds Crisil's Mohta, "As clients increasingly prefer to outsource multiple processes to a single vendor, firms that provide an entire bouquet of services stand to benefit the most."

Shifting Focus

Nasscom estimates that just a quarter of the revenues of Indian outsourcers come from the domestic market. But Indian clients could come to the rescue of Indian BPOs in time of need. This year, for the first time, Infosys said it would bid for domestic business, admitting that the "home market has reached a level of maturity".

According to Gartner, Indian companies in the private and state sector, from banks to railways, are expected to spend an estimated $5 billion on new technology in the next two years.

"It is an opportunity given that our brand is strong within India. They want integrated solutions combined with full service and support. Again the number of potential large clients is also small here. But we are now ready for India," admits Infosys's CEO & MD S. Gopalakrishnan.

Suresh Vaswani, joint CEO of Wipro's IT business says, "There is scope to drive transformation across all verticals. We are fairly ambitious about the opportunity with telecom service providers, retailers, government, healthcare, infrastructure and banking. There are deals to be won in aerospace and manufacturing also. So the opportunity is broad-based, and we need to seize it."

The other knight for the industry could prove to be the mid-market customer who is expected to expedite outsourcing decisions hitherto lying on the backburner. This segment has historically found it difficult to tap the benefits of global outsourcing, and is now expected to take this route to stave off cost pressures to survive.

Says Nishant Verma, vice-president at Tholons Capital, "During the times of 40-50 per cent growth rates, the large Indian vendors had become picky in terms of client and deal sizes, but any such filters have blown out of the window. In the present circumstances, vendors will be only too happy to serve SMEs."

Trends To Watch

The time seems to be ripe for many IT clients — at least in the short term — to move away from third party providers to captive units. Akhilesh Tuteja, head, IT Advisory Services at KPMG says, "This will be the easiest way for companies to transfer headcount without any retrenchment."

The tepid market will also slow down large mergers and acquisition deals. "The average deal size has almost halved in 2008 compared to 2007 numbers, and we anticipate the deal sizes to be depressed due to lack of fresh capital coming from the PE route," says Verma of Tholons Capital. However, firms will continue to look for small tuck-in acquisitions to plug gaps in their portfolios and gain client proximity. "We are already seeing the intent from the likes of Infosys, Wipro, TCS and HCL." Cross-border, inorganic investments are expected to increase in Japan and China with increased market consolidation seeing small to medium players being the likely targets.

According to Tholons, smaller players will find the going tougher, and will be more open to mergers or takeovers to survive. A large proportion of sub-1,000 (employee) firms will either close shop or be acquired. But the bottom line is that the fundamental motivation for offshoring has not diminished — in fact it has become stronger. Analysts expect to see a revival in outsourcing, to come to fruition in 9-12 months.

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TOP TEN TRENDS IN SERVICES GLOBALISATION 2009

- The market downturn will impact revenues during the first two-three quarters.
- Focus on domestic market to increase.
- Global economic downturn will lead to increased outsourcing in healthcare, education, retail, telecom and legal process outsourcing (LPO).
- Governments to take special initiatives in promoting destinations.
- Clients will increase geographic diversity in their service delivery locations.
- Pricing pressures will result in reduced rates and new measures to achieve cost savings and higher productivity.
- Consolidation imminent for small players — focus away from large deals.
- Outsourcing revival by 2009 end — driven by small to mid-sized (SME) clients.
- Strong focus on innovation, R&D and technology adoption will be key differentiators for providers.
- Sourcing deal sizes will increase for large clients.

Source: Tholons Advisory

Beauty & The Beast

by feroz ahmed

Apple's products and service are at two ends of the quality trip

FOR a company that thrives on wowing consumers, Apple generates mixed feelings in India. While its Mac computers, iPod media players and iPhone smartphones are much appreciated for their looks, friendly user-interface and robust technology, a lot of consumers still find Apple's pricing unreasonable. Typically, Apple charges a 10-15 per cent premium over similar rival products, and its post-sales care is not very reassuring due to non-availability of technicians and spares outside Apple's own small service network.

So, it is not surprising that despite a significant rise in its brand profile in India, after the global success of iPods and iPhones in the past couple of years, Apple's progress in the Indian market is tardy — iPods sales have plateaued after a jump in 2007-2008 and iPhone sales are indifferent. Still, there are a few positives for Apple to draw from its Indian foray so far and feel encouraged to increase its interest in India.

Though Apple would not share details of its Indian operations, according to Sumeet Raina, director of Radius Systems, an Apple reseller in Delhi, there has been a big surge in consumer interest in Apple products in the past year. "Thanks to the blaze of publicity around iPod and iPhone, and great user experience with those gadgets, Indian consumers are buying Mac computers for work and entertainment too," he says. Till about two years ago, he says, Mac usage was limited to publishing and design professionals in India.

Raina also argues that Apple's service is adequate as it has service centres in major cities in India. However, a lot of Apple customers are not quite thrilled. "You have to pay about 10 per cent of the cost of the computer to extend your one-year warranty to three years," says Ashok Gopala, an IIT-dropout turned social development worker. "Besides, it is hard to find somebody to service an Apple product outside the metros." The new Apple products are built for either replacement in entirety or for servicing only in its own centres. Then, many users complain that if the iPhone's hardware develops a snag, the consumer has to wait for more than a week instead of getting a replacement phone, as some other smartphone sellers do, such as BlackBerry.

Globally, Apple did rather well in 2008. In the July-September quarter of 2008, the last quarter for which Apple has declared sales volumes, it shipped 11 million iPods, 6.9 million iPhones and 2.6 million Macs. While iPods growth over the same quarter of 2007 slipped to single digits, it logged impressive 21 per cent growth in its oldest product, Mac. The newer iPhone, which was launched in 2007, sold more than six times more units as Apple launched the product in more countries around the world.

However, 2009 could be a big challenge for Apple as economic woes compel consumers to prefer bargains over beauty. In India, it could well do what every successful multinational does in India — pitch entry-level products at low prices and generate volumes to justify investment in a post-sales care network. Then, milk the top end of the market for profits.

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IT SPECIAL

Product Innovation

by subash menon

INNOVATION CALLS FOR VISION AND CONviction. Innovation being the starting point to build a software product company, vision helps us come up with a product idea. And innovation helps us make the product highly suited for the targeted application.

Ralph Waldo Emerson had said: "The creation of a thousand forests is in one acorn." This could not be more true for software products firms. That proverbial acorn is the product idea on which depends the potential to succeed. But how does one identify a winner? The answer is: one never identifies a winner. One identifies a potential product idea, and makes it a winner.

Products can be grouped into 'absolutely essential', 'need to have', 'nice to have' and 'frill'. One of the reasons for the bankruptcies of product companies during the tech downturn was that their products fell into the last two categories. Our process was to choose a few areas in the domain that we were familiar with. Then we used filters to qualify each, and thereby arrive at a shortlist. The next step was to speak with potential users of the shortlisted ideas. Finally, we applied a huge dose of 'gut feel' to choose the product.

The next step is to formulate a sound strategy covering markets to be addressed, sales channel, marketing methodology, product management, support, etc. From a market perspective, addressing a developing market (if market for the product exists in such geographies) and establishing a reference base in that market might prove to be quite helpful before addressing a developed market. This will help in overcoming the obstacles due to the lack of acceptance of India as an origin for software products.

While I may not be able to tell one sure way to succeed, I certainly can point towards one sure way to fail: lack of focus. It is imperative for firms to be totally focused in a niche or a narrow niche. Superior knowledge of the domain is essential to develop products that will be future-proof and to define the road map for them.

As the West turns to India to save costs, software product firms here should tap the opportunity

Depending on the complexity and size of the product being developed, it takes three-five years for the product to stabilise, and for the company to start making reasonable profits. Also, obtaining a beta site and ironing out issues in the product takes a fairly long time. Companies need to prepare themselves for this long gestation period with respect to funding, morale of personnel and staying power. The ride to profitability could be accelerated through tight cost controls. Even with that, profitability is a long way off compared to the services business.

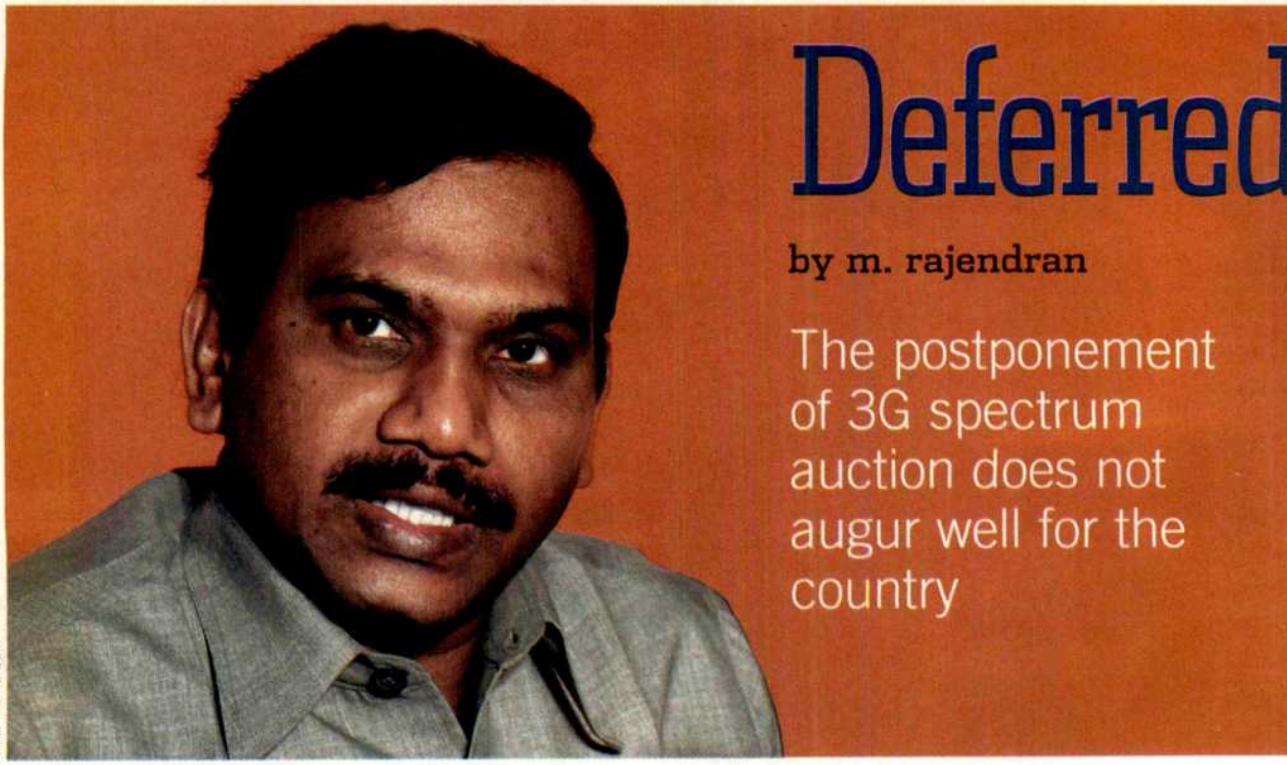
Apart from identifying the product, this probably is the most critical and expensive aspect of the business: Product companies typically have to invest four times the amount invested in development, in sales and marketing. There really is no limit to the possibilities of expenses in this space, and calls for substantial attention to strategising, planning and execution.

The first step is to decide on the market approach — direct sales or channel partners, or both — depending on the nature of the product and market segment. Global sales call for personnel with suitable experience. Marketing in the software space is a little understood concept in India. This covers the entire gamut of product management, collaterals, trade shows, preparation of bids, etc. Indian firms need to learn a lot with respect to packaging and presentation, particularly when addressing overseas markets.

It has been established that overseas venture capitalists are increasingly demanding that product firms in the West should locate as many functions as possible in India to save costs. A recent example is that of a Silicon Valley firm that managed to get through two years of operations with only about $5 million (by depending on India) instead of about $15-20 million that they would have otherwise invested. When overseas start-ups have woken up to this advantage, Indian companies should not be left behind.

India is today at an inflection point with advantages eclipsing problems for setting up a software product company here. It is within us to pull off success at a grand scale, provided we tread with caution while paying considerable attention to these cardinal principles, and have strong commitment and conviction that India can be the thought leader of tomorrow.

The author is Founder Chairman, Managing Director and CEO of Subex, and Chairman of the Nasscom Product Forum



BIVASH BANERJEE

Deferred

by m. rajendran

The postponement of 3G spectrum auction does not augur well for the country

LACK OF SUPPORT: Telecom Minister A. Raja. The disagreement between DoT and other ministries on fixing the base price for 3G licences is further delaying the auction

ON 12 January, the Department of Telecommunications (DoT) posted a terse note on its website: "The revised time line for auction of 3G (third generation) and Broadband Wireless Access (BWA) spectrum will be notified shortly." What it meant was that 3G and BWA had been deferred indefinitely. Reason: the government will get into election mode in the coming month — a process that will go on till the new government is elected and takes charge by July-August 2009. By the time it decides on the two technologies, 2009 would have passed.

A senior Telecom Commission member says, "At this moment I can only say that the differences with and within the concerned ministries (finance, home, law and defence) are under deliberations and not yet resolved completely." The draft note for Cabinet approval on 3G is still under circulation amongst these ministries.

A senior executive of a leading telecom firm waiting to bid for 3G is aghast: "The deferment is sacrilegious. The UPA government has made a joke of telecom reforms and is killing the sector." The anger is palpable in the industry as much as in the public. Telecom is fast degrading into one of India's worst managed industries. First, by under-pricing the eight new licences by Rs 80,000 crore, and now by losing the opportunity cost of perking up the economy by 1-2 per cent through high-speed internet on the go.

The powerful GSM lobby that has thwarted every attempt at introducing 3G and BWA — two new-age technologies that will hurt their business — for over four years has yet again triumphed over commerce and reasoning. The lobby, which has been garnering much of the 10 million net subscriber additions every month, has maintained that the Indian consumer is not ready for 3G. But their fear is that 3G will hurt them in three major ways: One, it requires additional investments of about $1 billion for a nationwide service while they prefer to invest in widening their voice network for now. Two, they fear that investments in 3G will not get them returns as good as those in the voice business. According to Mumbai-based Enam Securities, "3G addressable markets would be low in the initial phase since data usage benefits would only come in by financial year 2011 — a time wherein voice growth tapers off." And three, they would prefer to stall a disruptive technology such as WiMax on broadband wireless for as long as they can because their own rival technology LTE (Long Term Evolution) will not be commercially available before 2011-12.

Interestingly, DoT gave up on 3G well before the revised deadline of 30 January for start of the auctions — a deadline that itself was an extension from the previous date of 16 January. One more to the 100-odd deferments already made for release of 3G spectrum.

The government has repeatedly announced launch deadlines over the past three years.

Indefinitely

First, in May 2004, former telecom minister Dayanadhi Maran unveiled his 10-point agenda to boost IT and telecom sectors, saying, "The 3G standard has evolved, but has not proved cost-effective. I therefore plan to leapfrog this generation and develop 4G technology." However, he realised that there was not enough spectrum for 4G and did not push it further. Telecom Regulatory Authority of India (Trai) in September 2006 came out with its 3G/BWA recommendations.

Maran kept missing the deadlines and was forced out of the ministry in May 2007 following internal squabbles within DMK, a major ally in the UPA government. When A. Raja took over the reins from him in 2007 , he announced that 3G services would be launched by year-end. He sent Trai's proposal to a special committee of experts. The response was not acceptable to DoT since it wanted to allow foreign players while Trai had opposed it. The matter was referred to the Attorney General of India in June last year who in turn suggested that a Group of Ministers (GoM) should finalise the issue. Finally in September it was decided that foreign players would be allowed. But it was mandatory for those picking up 3G spectrum to also take 2G licence by paying Rs 1,658 crore.

For now, the auction process for 3G is mired in controversies with the finance and defence ministries proposing a higher base price. DoT had fixed the base price of Rs 2,020 crore for an all-India 3G licence, but the finance ministry proposed doubling that to Rs 4,040 crore. "Delay is not good as operators would divert their capital expenditure at a time when liquidity is scarce," says N.K. Goyal, telecom analyst and founder of CMAI, an industry lobby.

The pre-bid conference for 3G was also a disappointment with no foreign players showing up. "You need clarity on policy, foreign operators will come," says an optimistic Ravi Visvesvaraya Prasad, an independent telecom analyst with RVP Associates.

Advantage PSU Telcos

Now that the dates for the auction have been renounced, the public sector telecom companies such as Bharat Sanchar Nigam (BSNL) and Mahanagar Telephone Nigam (MTNL) will have nearly a year's lead and an unfair advantage over every other telco that wins a 3G licence. Though the PSU telcos will have to match the highest bid as their licence fee, they haven't had to pay anything upfront. A private telco, for instance, may have had to pay a minimum of Rs 4,000 crore if the finance ministry's proposal of the floor price for a 3G licence was accepted.

Meanwhile, MTNL launched its 3G service — Jaadu — in Delhi on a trial basis on 11 December 2008. Jaadu will be commercially available in Delhi and Mumbai in February. BSNL is scheduled to launch its 3G services across the country in January 2009. But analysts say lack of marketing expertise at MTNL will ensure that private players will overtake it whenever they launch. For instance, one month of free Jaadu in Delhi elicited a lukewarm response. It also had problems in managing the security aspects while rolling out the network, with phones ringing inside Parliament House. "MTNL needs to improve its marketing and customer service," says Goyal. MTNL CMD R.S.P. Sinha does not agree: "The response is very good and demand is increasing." But Sinha does not share any numbers.

In India, 3G spectrum auction is intricately linked to BWA spectrum auction which includes WiMax. The delay would hurt both the potential businesses even as there is no end in sight.

A senior DoT official responsible for preparing the draft on 3G auction says that the definition of 3G spectrum itself has been questioned by a major operator. It was recently brought up with the Prime Minister's Office by a powerful ally in the UPA government close to the operator.

Those disapproving 3G need to look at the economic benefit that mobile phones have brought to individuals. A London Business School study in emerging economies such as India showed that an increase of 10 mobile phones per 100 people boosts GDP growth by 0.6 per cent. That translates into 1.8 per cent contribution to GDP — a lost opportunity for now.

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STILL DOWNLOADING: The 3G auction, which promises to bring full internet experience to cellphones, is tangled in controversies in India

IT SPECIAL

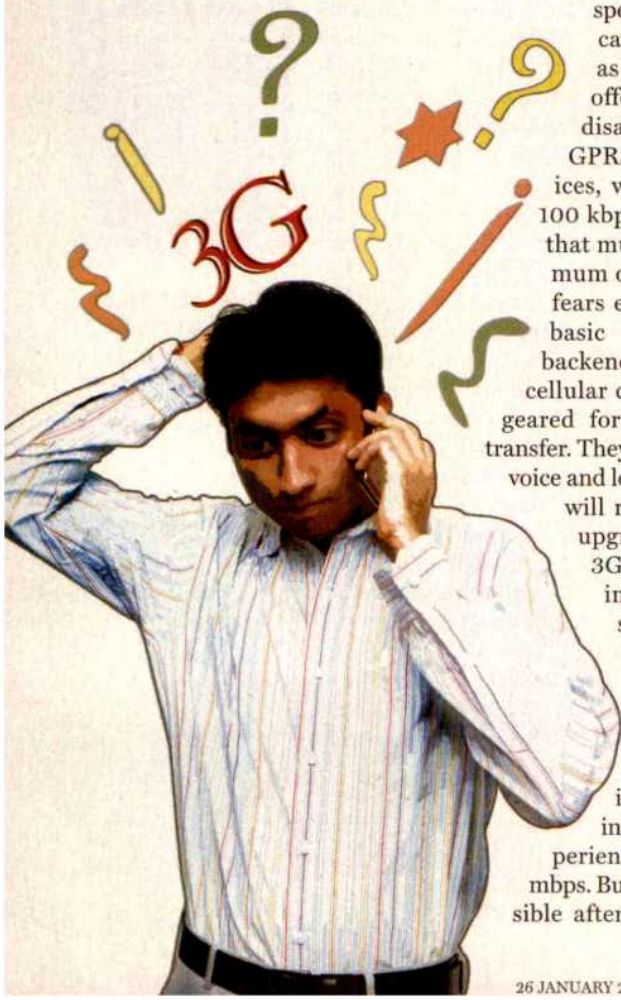
Not The Real Thing

by m. rajendran

3G technology, when it arrives, may not give the desired speeds

CONSUMERS, geeks and corporate road warriors alike are itching to get 3G telecom services, which would technically provide them with 20 times faster internet download speeds of 2 megabits per second — enough to download a 90-minute movie in less than seven minutes. The surge in demand for cellphones expected as a result of 3G's possibilities is expected to provide a much-needed stimulus to the slowing economy.

But there is a big question mark over whether telecom operators will deliver the minimum speeds of 2 mbps (3G can deliver as much as 7 mbps) or their offerings will be as disappointing as their GPRS and Edge services, which serve under 100 kbps on a technology that must deliver a minimum of 144 kbps. These fears emanate from two basic facts: First, the backends of most major cellular companies are not geared for high-speed data transfer. They were designed for voice and low-speed data, and will require significant upgradation. Second, 3G requires intense investment in base station infrastructure that cellular companies are disinclined to do.



MTNL, which is doing trial runs of its 3G service Jaadu in Delhi, has been experiencing speeds of 2 mbps. But this has been possible after significant additional investment. "We had to put up 11 base station boosters in an area of 3-4 km," says a senior technical officer in MTNL. "So we would need more than 500 to cover just South Delhi." MTNL has given 3G phones to less than 100 senior officials for a trial period. Whether its network can sustain downloads of 2 mbps with millions on the network remains to be seen. BSNL, which will be the next to offer 3G in the coming months, has some of its backend infrastructure dating back to the 1980s and 1990s.

Most private operators' backends have been set up post-1995, and they will be put to test whenever the government decides to invite 3G bids. Analysts say one telecom major, with interests in both CDMA and GSM, lobbied to postpone the auction of 3G spectrum as it did not have the capital to bid for it.

ITU International Telecommunication Union

But most cellcos say they are ready. "We are prepared to launch the services in a few months as and when requisite approvals and spectrum is available," says Manoj Kohli, CEO and joint managing director of Bharti Airtel. Anil Sardana, managing director of Tata Teleservices, and senior executives at other telecom companies concur.

Meanwhile, consumer rights groups are up in arms. They say operators convinced customers to buy expensive video-streaming handsets even when they knew they would not be able to provide video-streaming services. Worse, many operators asked the government for additional spectrum to provide value-added services. But they used it to sell basic voice services to more subscribers. Now, the same cycle could be repeated, consumers fear.

The telecom industry will be the biggest victim of this. Among the few sectors that have defied the slowdown, it hoped to perk up its growth with 3G. Much of which was to come from the huge commercial applications of 3G, which include home shopping, tele-learning, tele-banking, tele-medicine, enhanced Web searching, music and film downloads, gaming and lotteries.

Entrepreneurs were already rushing to play in these industries with the expectation that the government's impending decision to auction 3G spectrum could increase the size of the value-added services market from $1.5 billion to $10 billion by 2010. But that is not to be — at least for now.

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IT SPECIAL

Creating Promoters

by chandramouli c.s.

THE SUCCESS OF THE INDIAN SOFTWARE services industry is a globally acknowledged phenomenon. Indian software service providers are considered on a par and, in most cases, better than their global counterparts. However, till recently, the same parallel could not be drawn for Indian software product businesses. Think software products and only a few Indian names would flash to our minds. However, in the past few years, India-based product businesses have immensely improved.

Today, we have a few globally-renowned 'indigenous' software product businesses in areas such as banking and telecom. Naysayers may argue that this has been due to the reluctance of Indian companies to invest in intellectual property (IP) creation, talent crunch and the relatively small domestic market.

Indian software product businesses started mushrooming almost two decades ago. Various environmental factors such as dearth of talent pool, lack of investment, parallel emergence of services industry, etc., hindered their growth. But haven't most sunrise industries faced confrontations before they took wings? Over the past few years, these businesses have gradually been building a strong case for product play. Given the developing ecosystem in the current scenario, we can believe that we have reached an inflection point in the evolution curve.

Today there are numerous opportunities that have surfaced for Indian product businesses due to fundamental innovations at the global market place. Three innovation levers such as technology (Web platforms, SOA and virtualisation), delivery (software appliance, SaaS, software-enabled solutions) and revenue (subscription, ad-based) model has turned in favour of new start-ups, thus enabling them to compete with incumbent players. Over the past 5-7 years, a huge domestic market opportunity has been created that can significantly contribute to the growth of software product companies. After all, no one can really understand our localisation needs better than players of the soil themselves.

We need to make serious efforts to spawn entrepreneurship and boost the product business culture

A combination of these factors is helping Indian software product businesses break through the barriers. The time is ripe for Indian product businesses to use disruptive technology and innovation to wriggle control of the local market from their multinational counterparts. It is important for Indian software product businesses to choose the right strategy for revenue and delivery model to have a significant play in the global market. This could be the first step towards product business revolution in India. There is a vast talent pool also available on account of the work done for MNCs in the area and attracting them could be the key. Getting the right talent and focusing on software product development in areas such as business intelligence, enterprise resource management, security, search engine marketing and online gaming is the call of the hour. To put things in perspective, technology penetration is increasing, more venture capitalists are showing interest in Indian product start-ups, and globally too, customers are willing to look for value for money.

Today, we need to innovate on revenue models for our own IP creation to deliver value. Product business by nature is a 4-6-year cycle with focused investments by businesses. Though they may be few and far between as not many innovative products have emerged out of India, the paradigm shift is long overdue. And it is heartening to know that some companies in India have already taken that leap.

All these years, various elements of the Indian software product business's ecosystem have developed independently and more coordinated actions now will increase their effectiveness. But to ensure momentum, this has to be coupled with branding activities in the domestic as well as overseas markets, leveraging on partnership models and playing catalyst to regulatory reforms that support development of such kind.

We need to make an effort to spawn entrepreneurship and support budding entrepreneurs to take more risks, thereby boosting the product business culture. This would in turn help innovation become the bloodline of Indian industries, and contribute to the growth of the nation.

Chandrayaan-I is in lunar orbit, and will soon reach the moon. It's our turn now to defy gravity and move into another orbit.

The author is Engagement Manager — Advisory Services at Zinnov Consulting

IT SPECIAL

Slow, Not Steady Either

by m. rajendran

Poor connectivity and slow speed mar internet access on mobile phones in India

AT speeds of less than 100 kilobits per second (kbps), internet access on mobile phones is painfully sluggish in India. No wonder, only a piffling 1.8 per cent of the country's 350 million mobile phone subscribers have internet connections. This puts India far behind the toppers: the US at 15.6 per cent, the UK at 12.9 per cent and Italy at 11.9 per cent.

"Operators need to do more in terms of network capability," says Nirpendra Misra, chairman of the Telecom Regulatory Authority of India. "Infrastructure certainly needs to go up." Mobile service providers are offering speeds that are 45 per cent short of the promised 144 kbps on a general packet radio services- (or GPRS-) enabled phone. Consequently, for many it is a disincentive to buy GPRS-enabled phones, with just 26 per cent opting for them, according to the Internet & Mobile Association of India and IMRB International. In contrast, 99 per cent mobile phones in South Korea and 76 per cent in Japan are GPRS-enabled.

Arguably, this is preventing sales of large-screen, internet-friendly phones from taking off in India. A majority of phones sold here are of the 1.5-2-inch screen size. Sales of large-screen (3.5-4 inch) phones that provide an enhanced internet experience is hampered, affecting commerce on the internet via mobile. Adding to the woes of subscribers is bad connectivity. "It gets frustrating when you are roaming; even in Delhi, the connection just snaps when I am accessing my mail," says Navneet Singh, an Airtel GPRS user and a multinational bank employee.

It is not as if there is no demand for high bandwidth services with better connectivity. A 2008 survey by New York-based syndicated consumer research project supplier Nielsen says 38 per cent mobile internet users in India only visit gaming sites, 33 per cent use it for email. The proportion of users surfing it for entertainment, music and sports is small at 21, 18 and 15 per cent, respectively.

A recent survey of nearly 700 consumers in the US, Japan, India, China and Germany by the IBM Institute for Business Value says that 28 per cent would like to do e-commerce on their mobiles, 19 per cent want to download music and 27 per cent want to browse for news and search. "The experience has to be closer to what the consumer gets in a PC or a laptop," says Sunil Dutt, Samsung's country head of mobile business.

Analysts also point out that for internet on mobile to be successful in India, relevant content for targeted consumers will have to be in place. At present, there are just 15-20 content developers in India compared to more than 1,000 in Japan and about 800 in China, according to Vishal Gondal, founder director of Indiagames.

Despite the snarls, marketers believe in the potential of the mobile internet segment catering to more than 1 billion people. "We see a huge opportunity that most of them will use small devices like the mobile phone to access the Net," says Olli-Pekka Kallasvuo, president and CEO of Nokia Corporation.

India, which adds about 10.8 million mobile phone subscribers every month, could leapfrog over other countries. It just has to get a few things right. But for now, those add up to quite a few.

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Some Indulgences Cannot Be Explained

A look at India's business tycoons and their indulgences

When Lakshmi Mittal bought a villa in Kensington Palace Gardens from Bernie Ecclestone, the president and CEO of Formula One, for an astounding US$ 130 million in 2004, it became the costliest home ever bought. The record was broken a few months later in two different home deals by unnamed buyers, but by paying US$ 222 million for Noam Gottesman's mansion in the same area, Mittal broke all records again. In addition, he also bought a US$ 133 million home in Kensington the same year.

Closer home in Mumbai, Mukesh Ambani is building the world's most expensive residence — a 550 feet tower, to be possibly called Antillia, at a cost of Rs 120 crore. The 27-storey building will have enough space for the Ambanis' almost 200 cars, three helipads and a personal theatre. And what less can one expect from the businessman listed as the wealthiest Indian by Forbes?

The waters of the country are not left running dry, with the likes of Gautam Singhania owning private yachts. Singhania has a 47-foot luxury yacht called Ambassador 47. His other yacht Ashena went up for sale in 2007 at a cost of over US$ 16 million. A Burmese teak hull, six spacious staterooms, all fitted with bathroom ensuite, and a Made-in-India tag made Ashena a unique buy.

A Burmese teak hull, six spacious staterooms, all fitted with bathroom ensuite, and a Made-in-India tag made Gautam Singhania's Ashena a unique buy

A personal collection of priceless paintings.
Some indulgences cannot be explained.
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MUSIC CDs

Rakesh Wadhawan, the executive chairman of Housing Development and Infrastructure, currently owns a car fleet comprising of a Mercedes 320S, a Rolls Royce, a Bentley, a Hummer, and a BMW.

Thanks to the business tycoons of the country, Indian roads too can get a feel of the likes of Bentleys, Rolls Royces, and Hummers. Rakesh Wadhawan, the executive chairman of Housing Development and Infrastructure, currently owns a car fleet comprising of a Mercedes 320S, a Rolls Royce, a Bentley, a Hummer, and a BMW.

The indulgences of India's richest are not bound to the roads and waters. Most fly high in their own private jets. So while Ratan Tata owns and often flies his Falcon 2000, Anil Ambani owns the Bombardier Global Express and the Falcon 7X, in addition to the Falcon 2000.The high-flier club includes Lakshmi Mittal, Mukesh Ambani, KP Singh, and Gautam Singhania, besides several others.

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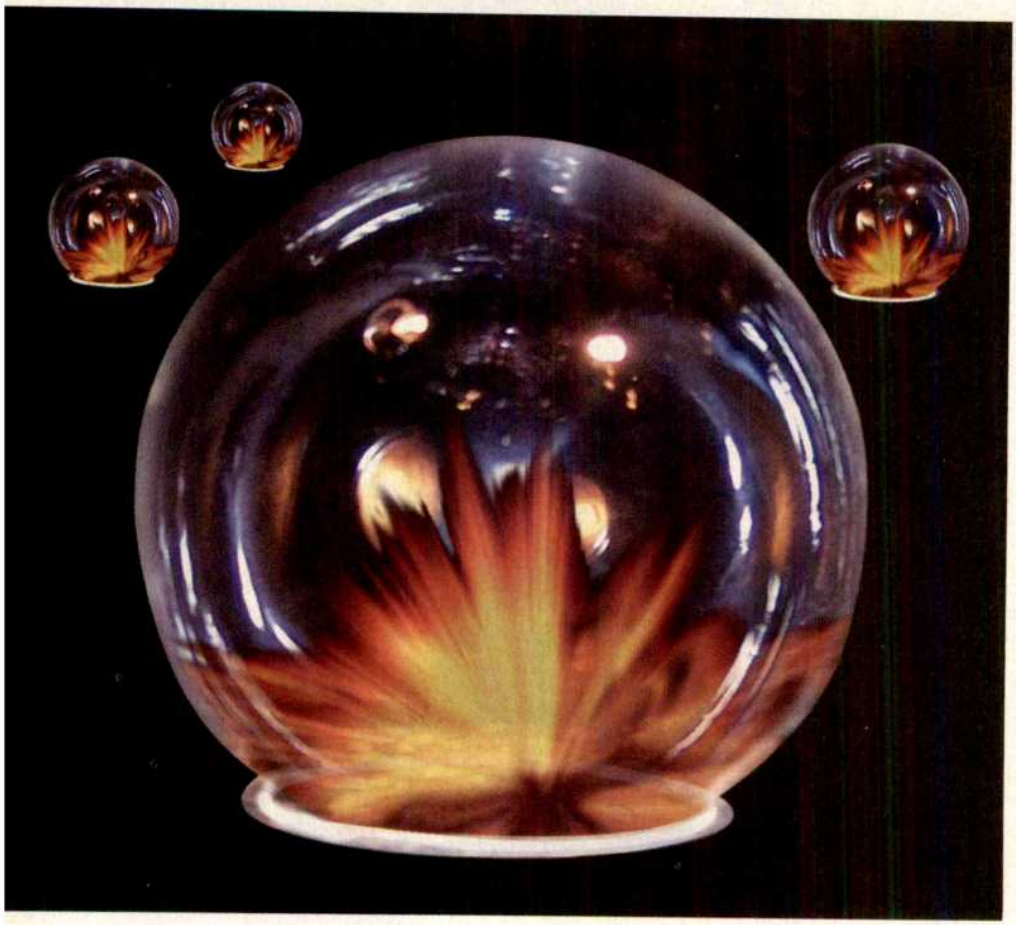

Create A Special Force

by Rajeev Dubey

Economic commandos should take charge of corporate failures

ECONOMIC REGULATORS' AND THE GOVERNMENT'S slapdash response to India's largest corporate fraud — the Rs 7,000-crore Satyam Computer implosion — has got drowned in a sea of congratulations from ill-informed commentators and obedient industry bodies such as the Confederation of Indian Industry and the Federation of Indian Chambers of Commerce & Industry. "We are so used to the government's inaction that any action reminds us we have a government in place," says the managing partner of one of India's largest corporate law firms.

Gratuitous accolades have passed over the fact that the disclosure of fraud was made on a Wednesday morning, while the authorities took their first decisive action to sack the Satyam board only on Friday night. So what if crucial time was lost in the intervening 70-odd hours when the company, its finances, its accounts and IT infrastructure remained in the hands of people who were part of the management that committed the fraud. So what if the Centre and the State debated for three days about who would initiate legal action against the Rajus. So what if incriminating evidence may have been destroyed as Satyam investigators have discovered, they are unable to locate the company's bank statements.

Tragically, the holes in the response can't be fixed retrospectively, but Indian regulators, which have never handled a business crisis of this magnitude, must realise that economic frauds are only going to get bigger and more disastrous; corporate implosions are going to be a norm; and fraudsters — like terrorists — are only going to get smarter with every new disclosure.

Even though Satyam's was a self-contained case of fraud leading to a corporate failure, this may not be the last that we have heard of such cases. As bankruptcies in the US and the rest of the world rise, India is likely to experience more corporate failures, management disasters and bankruptcies than it has seen in the past. In the US, for instance, Chapter 11 filings for reorganisation of business have gone up 117 per cent from 3,600 in 2006 to 7,900 in 2008 while filings under Chapter 7 for shutdown have risen 144 per cent from 11,400 to 27,800, according to Dun & Bradstreet Research. The services sector has seen 27 per cent of all bankruptcies, followed by construction (16 per cent), retail (16 per cent) and finance (8 per cent). What will hit Indian companies is the fact that nearly half of all retail bankruptcies are in apparel. "This upward trend in retail failures in the US has a direct bearing on apparel exporters from countries such as India," says Kaushal Sampat, chief operating officer of Dun & Bradstreet India.

This ground reality requires a refreshing approach to economic crimes and concrete steps to contain their fallout. Many observers are coming around to the view that the government

and the regulators' haphazard response to events such as Satyam's can be avoided, if India can create a quick response team from among the regulators, and the ministry, which must act within hours of disclosure of major frauds or any corporate failures of above $500 million (Rs 2,000 crore). "A SWAT team can serve as the second management to monitor the situation and prevent deterioration," says Shekhar Purohit, principal of Hewitt Associates.

By nature, a big corporate fraud is no different from a crime scene. Both require instant quarantining of the scene of disaster to allow forensic experts to bring the culprits to justice. Unfortunately, economic frauds in India are largely characterised by a cavalier response from the regulators in particular. While serious frauds actually require commando-like action for securing information because in most cases their methodology would have been well thought out. "Speed is of essence," says Vineet Aneja, partner of corporate practice at law firm Fox Mandal and Little. "A quick response from authorities is as essential as a quick decision on the legal process to follow."

Ideally, within hours of a disclosure, a crack team of specialists drawn from regulators such as the Sebi, RBI, Income Tax and the Ministry of Corporate Affairs must swoop down on the corporate headquarters and take control of the company's central servers, bank accounts, offices and laptops of key officials and e-mail accounts.

This helps in establishing the trail of evidence before it is destroyed, say experts. Inability to do this was one of the biggest failures of the Dabhol probe where investigators discovered that chips containing crucial data and information had been removed from the servers and taken out of the country. "You can lock the software so that data can't be altered and any changes can be caught by the audit trail," says Prateek Garg, managing director & CEO of IT infrastructure management firm Progressive Infotech, "but nothing prevents the executive management involved in fraud from removing the servers from the site or destroying them."

Regulators need to prepare themselves for yet another reality. As India's economic slowdown starts affecting companies, distressed firms will regularly SOS for specific skills such as company turnaround specialists. "It's a skill that is missing," says Hewitt's Purohit. "India has never experienced such failures. This skill still needs to be developed." In the US, for instance, there are specialists who clean out the executive management, take charge of a company for 18-24 months, and set quarter by quarter objectives to take the organisation through its troubled phase.

On their part, the Serious Frauds Investigation Office (SFIO) or the Ministry of Corporate Affairs can maintain a dossier of pre-approved turnaround experts whose services can be leveraged under such circumstances.

India must also build a consensus on separating economic fraud investigators and offices such as the SFIO from political clutches such as the Ministry of Corporate Affairs. Business and politics are so well intertwined in the country that political control can potentially influence investigations.

Businessmen such as Praful Patel, Naveen Jindal, Vijay Mallya and Rajkumar Dhoot are in politics while politicians such as Amar Singh, Sharad Pawar and Dayanidhi Maran have entered business. Friendship or enmity plays a bigger role than reasoning in thwarting or initiating investigations against either side.

All of this could be avoided if business fraud or bankruptcy investigators are given the statutory authority and the independence to swing into action without waiting for a political nod. Such a move will not only make the authorities nimble-footed, they will also eliminate allegations of using political power to prevent investigations.

Even if India's word-volleying with Pakistan over the Mumbai terror attack has evoked no confidence in the government's competence in dealing with terrorism, it can try salvaging some of its pride by tackling at least the business exigencies with greater aptitude.

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NEED OF THE HOUR

- India needs a well-defined architecture to deal with corporate frauds and implosions.
- Regulators such as Sebi, RBI and the ministry must form a crack team to respond to such situations.
- All failures above $500 million can be brought within the purview of this quick response team.
- It must take control of the IT servers and finances within hours of detecting a fraud.
- Investigators such as Serious Frauds Office must be taken out of political and ministry control.
- Ministry of corporate affairs must maintain a dossier of specialists who can be pressed into service instantly.

AP

Anatomy Of A Fraud

by K. Yatish Rajawat

There are more holes in Satyam's numbers than what Raju claims

DOWN AND OUT: The Raju brothers (above) have been arrested for financial irregularities in Satyam Computers

"I HAVE ABSOLUTELY NO FLAWS, EXCEPT THE FACT that I lie." This anonymous quote resonates in Satyam Computer Services Chairman B. Ramalinga Raju's confession letter to the board of directors where he said he had committed India's biggest corporate fraud worth Rs 7,000 crore on the company he founded 20 years ago. He and his brother B. Rama Raju along with Satyam CFO Vadlamani Srinivas have been arrested, but can Raju be trusted on all that he has disclosed? A host of current and ex-Satyam employees say there may be more to what he has admitted, even though Raju has taken the entire responsibility for the fraud and named professionals within the firm who he says did not have any knowledge of the fraud.

Raju's letter explains he overstated revenues and profits for seven years because "the concern was that the poor performance would result in a takeover, thereby exposing the gap". Therefore, he kept on fudging the accounts. Interestingly, despite overstated balance sheets, Satyam's performance never matched Infosys's or any of its peers (see 'Performance Assessment'). In a bid to prevent a takeover, Raju even tried to play around with equity holdings. In early 2000, Satyam merged four companies owned by Srinivasan Raju, his younger brother. This helped in raising the promoters' holding, but after a fallout with Srini Raju a couple of years later, by 2003 or so, the promoter holding fell again.

Unanswered Questions

Few are willing to buy Raju's statement in the letter that nobody except he and his brother knew about the fraud. His statement that revenues for the quarter ending September 2008 were actually Rs 2,112 crore but were inflated to Rs 2,700 crore means Rs 588 crore of false revenues were created. He also said net profit was actually Rs 61 crore but were declared as Rs 649 crore, a gap of Rs 588 crore.

This is convenient financial logic: inflate false revenues and show false profits. But this is very difficult to carry out in books of accounts, and can only be done with the active involvement of sev-

eral people, besides the internal and external auditors of the firm. Accounting experts say a much more dangerous way of inflating revenues is the *hawala* route. As IT firms have a tax exemption, it can be abused to launder money through the *hawala* route, where black money flows out of the country and comes back through the company's books, in the form of revenues. The pass through is tax-free from abroad as the company does not pay tax on its revenues, but for the money to go out it needs to do that through payments to a vendor or investments in subsidiaries or joint ventures. And maybe even expenditure abroad.

"It was an organised crime," says Prateek Garg, MD & CEO of IT infrastructure management company Progress Infotech. "Only an MD can't do this. There have to be several people in the organisation who were doing just this."

The only way to inflate revenues is either show false clients with false receivables or real clients with false receivables. If false receivables are to be shown from real clients, then it will involve employees in sales and delivery from other circles (see story 'Going Round And Round' on page 17).

The latter is ruled out by most Satyam employees, present and past. One reason for this denial is that nobody wants to admit that they were part of the team that committed the fraud. Even CFO Srinivas has been quoted as saying in his confession to the police that he "just followed Raju's orders and did not manage the bank accounts or monitor the cash". Which is a strange confession for a CFO. Moreover, it is not only bank accounts that have been forged, there is evidence of accounting forgery, too.

That may have to do with Satyam's culture of aggression because sales and delivery teams' bonus and incentives are linked to their growth targets. If employees know that there is a culture of fraud within the firm, they may have tried to exploit that to achieve their targets too.

Raju claims the receivables were false, the sundry debtors figures were also false. Receivables at the end of a reporting period that remain outstanding get reflected under sundry debtors. And if these debtors don't pay for a long period, they are classified as bad debts. Sundry debtors get reflected on the assets side of balance sheet as soon as these funds are received by the firm.

In Satyam's case, total sundry debtors in FY2007-08 were Rs 2,223.41 crore, compared to Rs 1,650 crore in 2006-07, a jump of Rs 573 crore. This figure was Rs 1,122 crore in 2005-06, Rs 528 crore less than the next year's figure. Raju says the firm has sundry debtors of only Rs 490 crore as of 30 September 2008, while Satyam's books show Rs 2,651 crore. That means around Rs 2,161 crore shown on the books are false. Interestingly, in the 2007-08 balance sheet, only Rs 61.60 crore worth of debt are shown as more than six months old. And other debtors less than six months old are shown as Rs 2,161 crore. Hyderabad-based Vivek Bhargava, who runs financial advisory firm Inventier, says, "How long debtors are kept on the books, is an item closely monitored by analysts and external auditors, as it shows the cash flow position of the company." Clearly, no one did that and the internal team got away with what can be called financial murder, as the lack of cash flow kills a company.

TALE OF THREE SUBSIDIARIES

Vision Compass: Started in the late 1990s, it was supposed to develop an ERP (enterprise resource planning) software that was supposed to break SAP and Oracle's control over enterprise software. This subsidiary is yet to develop the product. The hype for this company reached its peak around 2003. After that it was buried in the annual report. It still exists, but not many in Satyam know what it does.

Satyam-Computer Associates: This is a joint venture (JV) with US software firm Computer Associates (CA). Just after the dot-com collapse there was a huge hype around ASPs (application service providers). This JV was supposed to provide enterprise applications on rent to small and medium-sized firms in India. CA had its share of corporate governance problems, with CEO Sanjay Kumar admitting to a $2.2-billion accounting fraud in 2006. CA's first of seven JVs in India was in 1999 with Pentafour, a Chennai-based entertainment software firm that collapsed after the Ketan Parekh scam. CA's JV with Satyam did not see any success for the past seven years and Satyam bought out CA's 50 per cent stake for a measly Rs 5.64 crore.

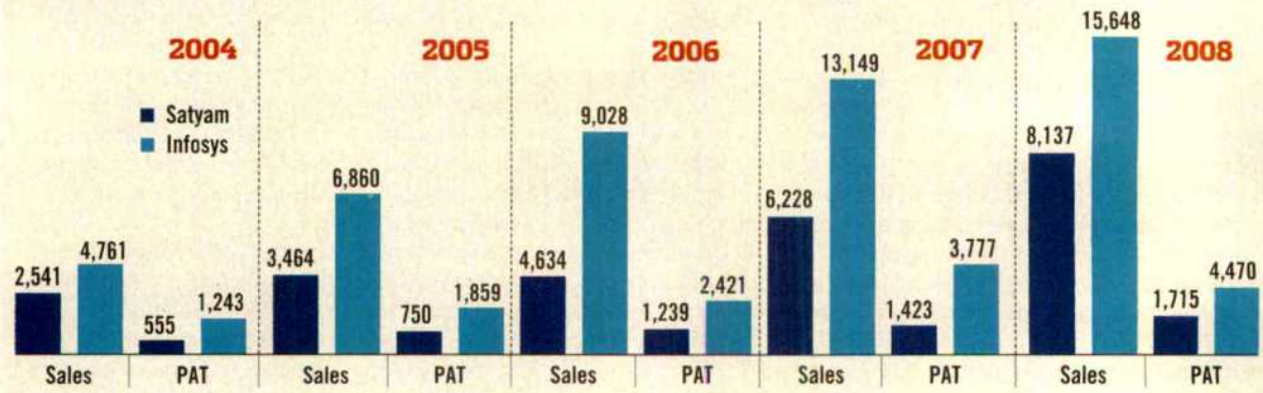
Nipuna-Satyam BPO: In the seven years of its existence, this company has had as many CEOs. The last, Venkat Rodham, came from Deutsche Bank and left after four months. At one point in time it was even headed by a former communication head of Satyam. Nipuna raised funding from Intel Capital and Olympus Capital, a hedge fund from Singapore. These investors put in $20 million with a lot of riders. Raju was trying to beat Infosys, which had raised $20 million from Citigroup. Nipuna never reached the scale and size of other BPO companies and Raju had to buy back these investors' stake in 2008 for almost $60 million, three times their investment.

Fiction Accounting

As pointed out earlier, to create false revenues, the finance department has to create fictitious customers, and show fictitious services rendered to them, and in turn get fictitious receivables from them. And these fictitious receivables will finally land up under sundry debtors. Now, every company needs to monitor its sundry debtors and make provisions for it, including for bad or doubtful debts. Those debts that are not easy to recover have to be audited by internal and external auditors. Clearly this was not done. Basically, the fictitious receivables were created and transferred to the sundry debtors. These fictitious entries accumulated over

Performance Assessment

Comparison of year-on-year sales and PAT growth figures of Satyam and Infosys from 2004 through 2008



Figures in Rs crore; PAT: profit after tax
Source: Balance sheets of companies

time as there were no payments to settle them. But did these debtors vanish from the books after a period of six months or so, and so were never declared bad? This is something that external auditors never noticed and never commented on in the notes or in the balance sheet.

Satyam uses enterprise software from SAP to manage its internal accounts, and there should be an electronic trail for all these transactions, unless these have been deleted, though digital forensic experts can detect that. The record of these transactions is crucial and will be the backbone of the case against people involved in the fraud. "SAP's ERP for financial systems also has well laid-out rules as per the accounting norms, to prevent any employee from doing frauds," says Rajapalli Raju, an independent IT expert in Hyderabad.

But it is possible to change these rules, especially if you have software and domain experts to do it. There are some paper records already missing, though. For instance, according to sources, some bank statements are missing. There is forgery and manipulation under several heads, which is not mentioned by Raju in his letter.

Take the case of gross block, for the first half of 2008-09: this is Rs 2,173 crore. While for the full year ended 31 March 2008 it is Rs 1,486 crore. This means that in six months, fixed assets rose by Rs 687 crore, or almost 47 per cent as compared to a full year! The explanation in the schedules is that around Rs 413 crore was due to rise in computers and software purchased, that is a 41 per cent rise. This rise in the computers and software assets is inexplicable. The CFO of a rival IT company says on condition of anonymity, "It is never financially wise to make such massive investment in upgrade, especially if you have a cash flow problem. It is possible to divert funds to friendly vendors in this manner."

What the CFO was hinting at is that sometimes promoters give private firms owned or connected to them orders from their listed entities to siphon funds. But even then the numbers don't add up. Even if the commercial department at Satyam decided to give every one of the 51,000 employees a new computer worth Rs 30,000, the total amount would be still just Rs 153 crore, not three times the amount reflected in the balance sheet. The depreciation period followed by Satyam for computers is two years, hence the purchase amount for the computers would be written off in two years.

The books need to be balanced as the reserves and surplus on the liability side were forged. Rajus say that Rs 5,040 crore from the total cash reserves of Rs 5,312 crore on the book do not exist. That means either these reserves never existed or else they were siphoned off from Satyam. Several Telugu newspapers in Andhra Pradesh, particularly *Andhra Jyoti* have been speculating that these funds were siphoned away from Satyam by Raju to buy land and assets under Maytas. These allegations could not be confirmed, but the investigating team will have to look at how the funds were transferred from one company to another. These dealings with respect to cash reserves cannot be done without the active connivance of bank officials. Here, the role of the RBI is crucial in bringing them to book.

Given the magnitude of the forgery, it is difficult to believe that employees at leadership level were not aware. Maybe they were not aware of the total amount of the forgery as Raju kept it close to himself, but they did know it was happening, and they just kept ignoring it.

The author is Editor of *Business Bhaskar*, a Hindi business newspaper

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Going Round And Round

by K. Yatish Rajawat

Raju's network of circles had a completely different agenda

ONE THING IS BECOMING CLEAR: FORMER SATYAM Computer Services Chairman B. Ramalinga Raju was amazingly good at running circles around analysts, fund managers, bankers, journalists and even his own employees. As a matter of fact, the organisational structure he created to run Satyam was called network of circles. Under this network, each circle represented either a vertical business unit or a horizontal competency unit or a regional business unit. The company developed it about seven years ago.

Each circle offered a specific set of business offerings to customers based on the competency profile. These circles were also meant to be independent profit centres, and were headed by senior Satyam veterans. For instance, one of the largest circles was made up of industry verticals such as telecom, internet, media and entertainment, which was led by T.R. Anand. The Integrated Enterprise Service horizontal was led by Subbu D. The performance of the leader of each circle was judged on the basis of the net profit that his unit generated. Thus, every business unit prepared its own profit and loss account. This is not unusual for organisations that form strategic business units (SBUs), but Raju, it seems, had a different agenda.

Analysts believe Satyam's organisational structure was the real cover-up
Source: Satyam

Satyam Computer did create some support units such as marketing, communications and others, which did not generate any revenues from outside. Therefore, these support units charged revenue generating business units for services rendered to them. In the initial years, every support unit decided what to charge the other business units. But later, a single capital overhead item was given or apportioned to each unit. This line item gave the overall cost that was apportioned to the unit for the use of all the support activities provided by them.

Analysts believe this was the real cover-up. Most 'leaders' of business units focused on the costs and revenues being accrued by their respective units, creating islands across the company, and a fair amount of internal competition. The silos created by this prevented employees from either asking or observing what was happening in other units in the enterprise.

Discussions with a number of Satyam employees were a revelation. None of them could believe that the margins could be as low as 3 per cent, as claimed by Raju. "I knew we had lower margins because we are always very competitive in our bids, but that it was so low, is not possible," says a mid-level employee who has been with Satyam for four years.

Ram Mynampati, the interim CEO appointed by Raju himself, also said he was not aware that there was such a massive forgery of revenues. Several senior leadership council members also expressed ignorance about the extent of over-reporting of revenues.

Another employee who has been with the company for 10 years says, "When you are living in the same house for many years, and a painting is a little tilted, you stop noticing it because you see it every day. Only an outsider can notice it." This is at best a lame excuse for signals that were visible but ignored. The network of circles may have created confusion but the internal signals were clearly evident.

Another senior leadership council member, says, "A couple of years ago I had asked for the company balance sheet for a corporate level business planning exercise. The department never gave me the numbers, and when I complained, the business planning function itself was taken away from me." As a wag remarked, some employees remained in the circles, while Raju drove others around in circles.

The author is Editor of *Business Bhaskar*, a Hindi business newspaper

What they meant when they said
"looks can kill".
The Complete Man
Raymond
SINCE 1925

Realty's Double Trouble

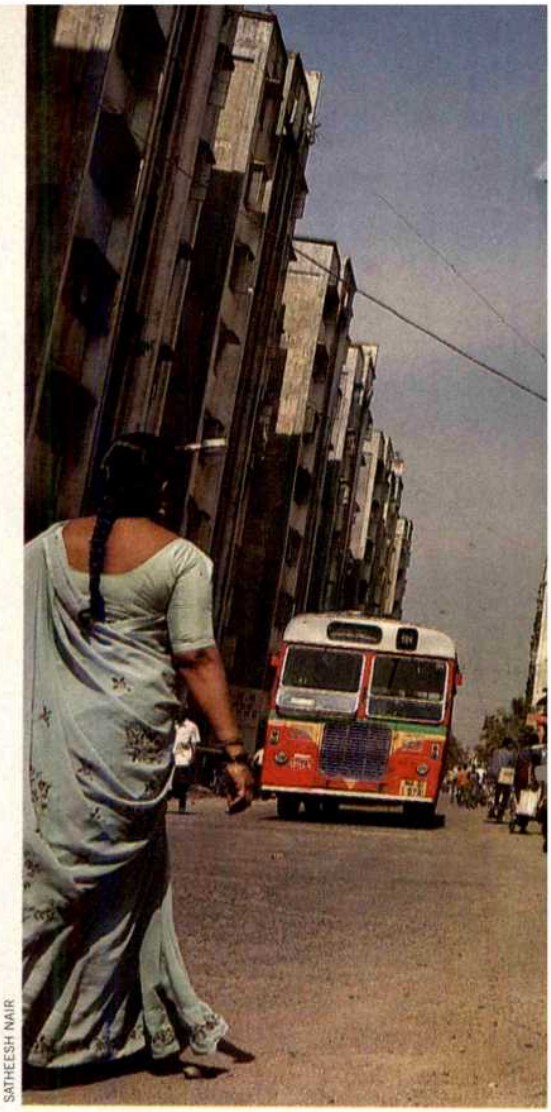
by Gurbir Singh

'Affordable' homes are not affordable; 'low-cost' ones, unavailable

BY THE END OF THE SECOND DAY OF SALE OF FORMS for booking 3,863 small and mid-sized flats in Mumbai this week by the Maharashtra Housing & Area Development Authority (Mhada), 1.89 lakh applicants had queued up. Ultimately, several lakhs will be in the race for these homes, priced at 50 per cent of market rates. In Delhi, the Delhi Development Authority's (DDA) 5,010 low-cost homes priced between Rs 7 lakh and Rs 77 lakh attracted as many as 560,000 aspirants. The 16 December lottery has been frozen because of multiple scams in allotments, but the writing on the wall is clear: millions of people do not own a home, and if somebody provides it cheap, it opens a floodgate of demand.

The irony is: in the commercial housing market today, there is a paralysis of demand. This has forced industry players to make two moves. First, the tribe of private builders has changed course and is now coaxing the middle class to buy a new segment of homes it calls "affordable". Second, the Central and state governments have proposed a slew of measures aimed at creating housing stock for the poor in townships and colonies being constructed by private players.

Neither tack seems to be working. Builders are finding that customers are just not biting the bait. Most buyers feel the market is yet to bottom out. On the other hand, politically well-intentioned measures aimed at generating low-cost housing continue to remain what they always were: good intentions.



SATHEESH NAIR

Sops Not Working

Government babus and politicians have reason to be unnerved in an election year. The housing shortage is increasing rapidly, and so are slums and other 'informal' housing. In Delhi and the National Capital Region, slums account for 30 per cent of the housing units; while in Mumbai, it is over 1.5 million or around 50 per cent of the city. According to the Centre's National Urban Housing & Habitat Policy 2007, by the end of this decade the shortage will be a huge 26.5 million units. Since government bodies such as DDA and Mhada, which earlier built affordable homes for the poor, are not focusing on constructing mass housing schemes, private builders are offered sops to fill the gap. This has not worked as builders have always managed to bend concessions without meeting their quid pro quo commitments.

Under the now repealed Urban Land (Acquisition & Regulation) Act, for instance, builders holding excess land liable for takeover could get out of the net by leveraging Section 20 and 21 of the Act and by pledging to undertake mass housing schemes to provide homes not exceeding 800 sq. ft. However, builders amalgamated the flats internally but sold them as two separate units to the rich and the upper middle class, as the recent legal battle involving builder Niranjan Hiranandani illustrates.

The prestigious Hiranandani Gardens spread over 230 acres at Mumbai's suburb of Powai was initially to be developed as an 'affordable' mass housing scheme. Two petitions being heard by the Bombay High Court allege that the terms of the 1986 agreement under which the land was allotted to the builder were grossly violated. The terms provided that 50 per cent of the flats constructed had to be less than

A DISTANT DREAM: Demand for mass housing schemes by Mhada in Pratiksha Nagar, Mumbai, has exceeded supply

40 sq. metres (430 sq. ft) and the rest could not exceed 80 sq. metres (861 sq. ft). Later in 1989, the builder was allowed to merge flats, but the amalgamated flats could not exceed 15 per cent of the total development.

According to the petitioners, Kamlakar Satve and Rajendra Thacker, the area of the flats constructed by Hiranandani Developers range between 1,870 sq. ft and 4,925 sq. ft, and priced at Rs 4 crore or more. The preliminary report by the state government submitted to the court admits that of the 6,739 flats built by the group so far, 2,469 have been amalgamated — obviously far in excess of the 15 per cent allowed. On 4 December, the Bombay High Court restrained the Hiranandanis from selling more that two apartments to one person in the project.

Now, Housing For All

At the peak of the property boom in 2006, builders were upfront about keeping away from homes that were smaller than 800 sq. ft, priced below Rs 20 lakh. The smaller margins and higher costs in terms of marketing did not make sense in a seller's market.

From mid-2008, builders were singing paeans to 'affordable' housing and selling the housing-for-all dream. The recent sop of categorising loans of Rs 20 lakh or less as priority lending for banks has boosted this trend. Kumar Gera, chairman of the Confederation of Real Estate Developers Association of India (Credai), said projects with three-bedroom flats were being reworked midway to halve their size to make them more saleable.

Gurgaon headquartered DLF, which has so far not built anything 'affordable', has now announced that it will be investing Rs 15,000 crore over three years in seven cities, targeting the mid-income buyers looking for homes in the Rs 15-40 lakh range. Delhi-based Omaxe plans to build 6,000-8,000 'affordable' flats, costing Rs 12-25 lakh across 10 cities, the company's CMD Rohtas Goel announced. In Bangalore, Sobha Builders is "looking at providing Rs 30-lakh houses", says J.C. Sharma, managing director of the company. Mumbai-based developer Akruti City, which was mainly into development of hospitality, retail and township projects, is now marketing homes under the brand

AFFORDABLE OPTIONS

Private builders are now targeting the middle class with new schemes

Developer	No. of units	Price range (in Rs lakh)	Investment (in Rs crore)	Location
Akruti City	NA	22-32	1,200	Thane, Mumbai, Pune
DLF	40,000	15-40	15,000	Bangalore, Gurgaon
Janapriya Engineering-Sun-Apollo JV	1,260 (Phase I)	20-35	400 (Phase I)	Hyderabad
Provident Housing (Puravankara)	64,500	10-20	8,000	Bangalore, Chennai
Trikona Capital	13,000	13	640	Virar in Mumbai
Unitech	10,000	30-50	2,500	Noida, Kolkata

Source: *BW* research

name 'Just Perfect Homes' in the Rs 22-32 lakh range, the company's MD Hemant Shah said.

'Affordable' Does Not Come Cheap

But these 'affordable' homes are neither cheap nor are they aimed at the poor, and should not be confused with-low cost housing. The 'affordability index' used by HDFC is the annual income multiplied by 5.1. In other words, for a person earning Rs 3 lakh a year, an 'affordable' home should cost Rs 15 lakh, for which a loan can be paid back in eight years. A low-cost home for the poor, on the other hand, assumes a price not exceeding Rs 3 lakh for those with incomes of Rs 60,000 a year or less.

By reducing the carpet area of flats and getting rid of frills such as providing a 'puja room', builders are able to offer budget rates. "Lower commodity prices of material such as steel and cement also allows builders to offer a lower price without reducing their margin," says Milind Korde, CEO of Godrej Properties. Echoes Ashish Puravankara, executive director of the Bangalore-based Puravankara Group, "By using simpler pre-cast technology, we can get the cost down to below Rs 20 lakh for a 1,000-sq. ft flat."

However, reports emerging from the real estate market indicate that the affordable housing segment is not selling. "The enquiries in December increased compared to previous months, but the conversions into sale have been small," concedes Godrej Properties' Korde, whose company is launching projects in Kolkata, Bangalore and Ahmedabad. It will be a four-six month cycle for buying to start after liquidity improves and the flow of home loans increases, he predicts.

Pranay Vakil, chairman of broking house Knight Frank India, says sales were just 10 per cent of what they were a year ago. "Compared to 50-60 sale registrations at the stamp duty office a day in Mumbai, there are barely 10-15 currently," he says. Guaranteed returns to investors and acquisition of land at high prices restricted the builders to reduce prices, he adds. "The Runwals (Mumbai-based builders) have guaranteed returns of 25 per cent to the Singapore fund Capital Land for their Ghatkopar projects. It is difficult for them to reduce their price line."

The Lost-Cost Housing Chimera

In the low-cost segment, investment is virtually absent. To create more housing stock, the Union Ministry for Housing and Poverty Alleviation has now proposed that private builders reserve 20-25 per cent of their townships to house the poor in small, cheaply priced units. Housing being a state subject, the Central ministry is hoping to enforce the quota through a combination of sops and penalties. States that fail to bring in quota legislation might find it difficult to seek funds from the Rs 50,000-crore Jawaharlal Nehru National Urban Renewal Mission.

Credai's Gera does not mince words describing the quota-for-the-poor move as an election ploy, and points out that building homes for the 'weaker sections' is not the responsibility of private developers. This is not the first time such a quota has been proposed. The Maharashtra Legislature in July 2007 approved a policy that requires new projects to provide 10 per cent of the layout for tiny units not exceeding 320 sq. ft and another 10 per cent for small units of 525 sq. ft. However, despite the good intentions, as Gera points out, it is not enforceable as it is "only a policy and is not part of municipal rules".

The earlier Nehruvian era saw the public sector intervening and competing with private developers. Bodies such as Mhada, Cidco and DDA were mandated to provide homes for low-income groups. The National Housing Policy 1994 and the National Housing & Habitat Policy 1998 changed all that, redefining the role of public bodies as 'facilitators' rather than developers.

Mumbai's failed slum rehabilitation scheme, driven by builders who were given sops, is a typical example of how a housing policy for the poor has gone astray. The 1995 'plan' aimed at constructing 1 million small, 225 sq. ft units. In 13 years since its inception, it has not met even 10 per cent of its target.

When dealing with a housing shortfall of close to 27 million units, most of them required for the desperately poor, the chances of meeting targets by arm-twisting reluctant builders is very slim. Perhaps the government should consider donning the mantle of 'social builder' once again.

As for affordable housing for the middle class, unless builders, who have profited from a 300 per cent appreciation in the past, begin to seriously slash prices, offtake is unlikely to improve.

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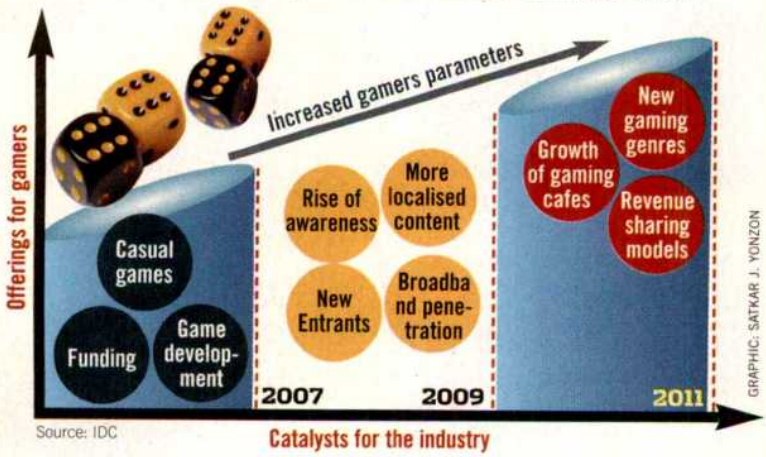
NUMBER GAME

The number of online gamers in India has been steadily increasing



Source: IDC

GRAPHIC: SATKAR J. YONZON

A Love And Hate Affair

by Janhavi Abhyankar

Online gaming is cashing in on a new form of public hatred

ONE NIGHT, JAYAN KRISHNAN, 46, A SOFTWARE engineer in Bangalore, was jolted out of his sleep by a voice screaming, "I will kill you! Dhoosh! Dhoosh!" Realising that the screams were coming from his son Ritesh's bedroom, he dashed towards it. As he rushed in, he saw the six-year-old shivering, cuddling the pillow, and fighting with someone in his dreams. Sensing trouble, he took Ritesh to a psychologist the next day, who explained it was a result of excessive gaming.

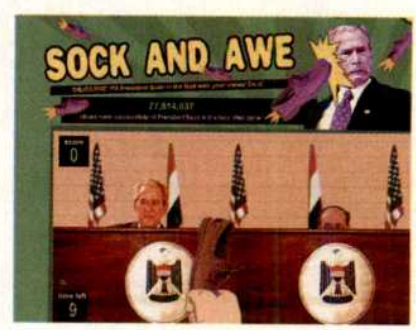
The debate on the ill-effects of violent games is eons old. Quentin Staes-Polet, CEO of Mumbai-based Kreeda.com, a company that developed India's first multi-player dance game called DanceMela, dismisses concerns, saying gaming is "just another media". "That gaming is violent is a misconception," says Polet. "It is like a newspaper, only more interactive. So, people should choose wisely instead of blaming the companies." On the other hand, psychologist Raji Hariharan says, "There is a very thin line between the virtual and the real world, and that doesn't take time to cross over." That could spell trouble, given that there were about 1.3 million online gamers in India in 2006, according to IDC, a global provider of market intelligence advisory services. With the industry growing at a whopping 63 per cent CAGR, the number is likely to grow 11-fold to more than 14.9 million gamers by 2011, becoming a $200-million industry.

Now, some companies are eyeing the 'hatred' in the minds of people against some well known public figures for their games. For example, MTV launched a game 'Slap Raghu' on its website, where the producer and judge of the channel's *Roadies* show, a person whom people just love to hate for his rude behaviour, can be slapped by gamers. When you open the game, you are once again instigated by Raghu's talk. A hand appears, which can be used to slap him. Another is a game on the website *www.sockandawe.com*, where one can throw shoes at the face of US President George W. Bush (launched when an Iraqi journalist threw shoes at him at a press conference), which keeps moving around the screen.

Gaming companies don't see anything wrong, though. "This particular game is just a spoof, and should not to be taken too seriously," Polet says, defending the Bush game. Anuj Poddar, senior vice-president for strategy and digital media at Viacom 18 Media, which owns the MTV brand in India, says, "The game was developed to merely have some fun. It is just giving people a chance to do what they would love to do; it goes beyond television, thus giving people a deeper engagement into the programme."

Negative gaming is not entirely new. Innocent shooting games such as 'Hate That Frog' are quite popular in the US. However, there are also a few banned games such as 'Ethnic Cleansing', a CD-ROM-based game whose object is to kill 'sub-humans' — Blacks and Latinos — and their 'masters', the Jews, who are portrayed as evil.

Currently the Indian gaming industry has no regulations. "The government doesn't even know that gaming is so big in India, so regulations are quite far-fetched," says a source who wished not to be named. Unless someone physically blocks those sites, it is impossible to keep track. Globally, when games are of a violent nature, the instructions on the CD or on the site indicate to the user if he should play the game. In India, though, gaming is yet to come of age. And that, perhaps, is a much greater danger.



SPILLING HATRED: Gamers can throw shoes at Bush in an online video game

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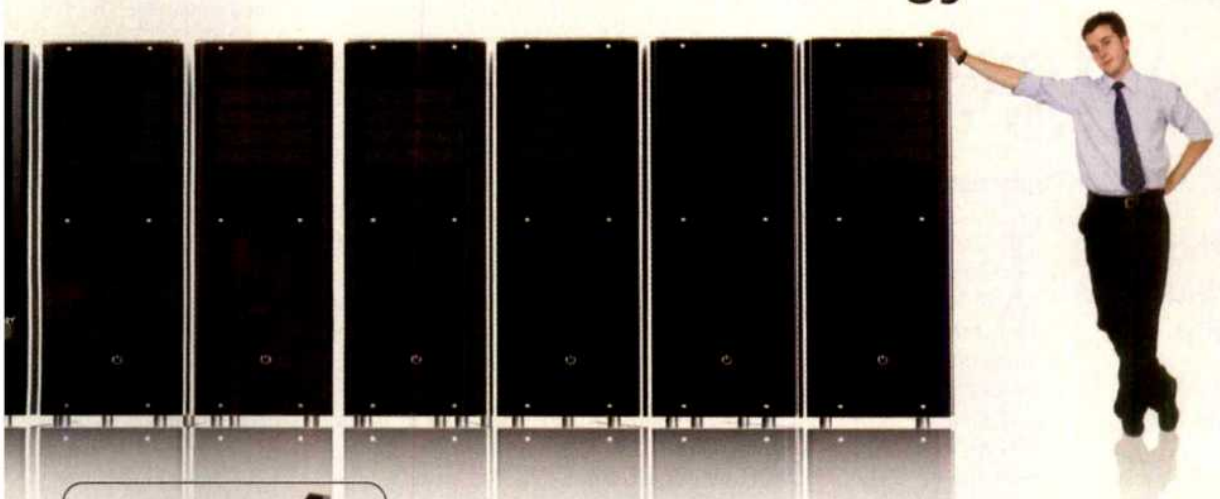

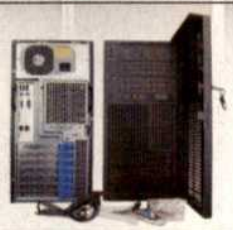

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GADGETS

What's That Widget?

by P. Hari in San Francisco

Forthcoming launches that could add spice to your gadget collection

IT might be one of the worst global economic slowdowns for several decades, but probably not if we ask the gadget manufacturers. They are busy launching one new product after another. For example, at the Consumer Electronics Show in Las Vegas early this week, there was a parade of new gadgets: smart phones, television sets, cameras, laptops, etc. The new launches were not restricted to the show either.

Some of the gadgets launched over the past few weeks are truly revolutionary. A three-dimensional (3D) webcam, for instance, would now start a 3D revolution that will truly transform the internet over the next decade. Some products are unusual, such as a two-screen laptop, while a few are finely-crafted devices, such as the Sony thin laptop. Whatever they are, they make one unambiguous statement: the gadget world is as alive and interesting as ever.

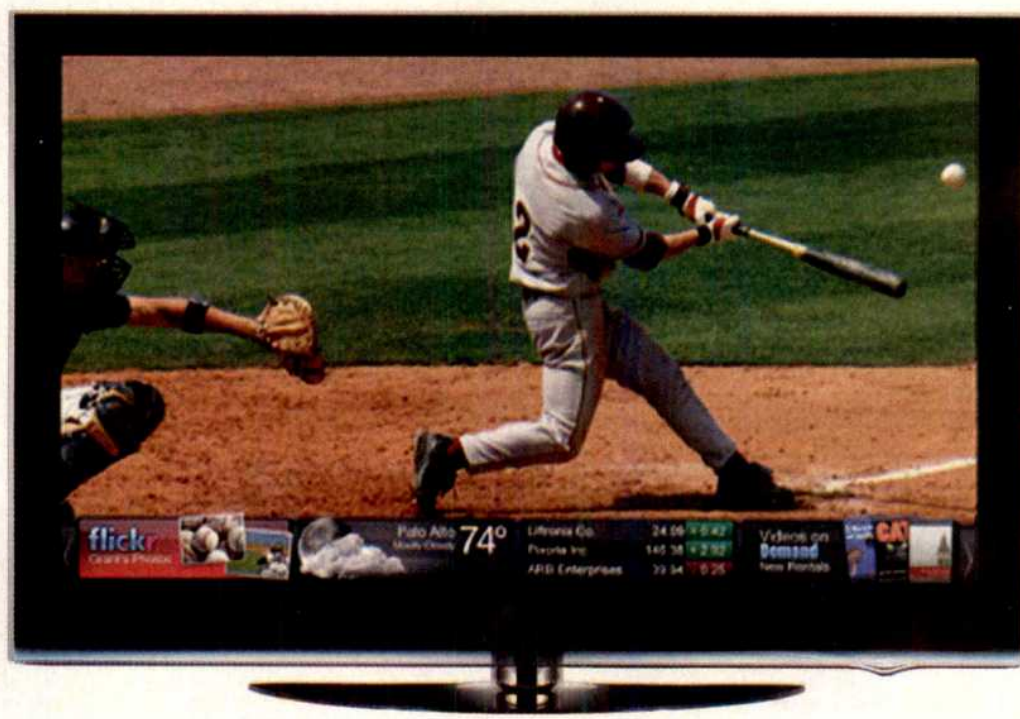
LG Broadband TV

Those living in India may not be very familiar with video on demand, given that it is still in nascent stage of adoption in the country, and still less familiar with streaming video on television through the internet. Video on demand is quite popular in developed markets. The US-based online video store Netflix has pioneered streaming movies online. Now, Netflix and LG Electronics have teamed up to produce a television set that bridges the gap between the internet and an ordinary television set.

Television sets usually do not come with internet capabilities, although you can watch internet video on your television through your PC or another box. In fact, LG and Netflix had together last year launched a Blue-ray disc player that could be used to watch streaming movies from Neflix on your television.

Now, these two companies have launched a Broadband TV that has built-in internet capabilities, apart from the usual High Definition TV feature.

Over this year, more and more television sets are expected to come with internet capability. The LG-Netflix product, although a pioneer, still does not go the whole hog: you cannot surf the internet with it. However, it is the beginning of a new phenomenon. You could see the product in India too, although not legitimately, just like the Vonage VoIP phone. Transporting a television set from the US, however, is not as easy as transporting a phone.



BRIDGING THE GAP: LG and Netflix have launched a Broadband TV that has built-in Web capabilities, including streaming video

AP

STYLE QUOTIENT: Sony's new 8-inch Vaio Lifestyle PC is the world's thinnest notebook, and weighs only 640 grams

Sony Vaio Lifestyle PC

It is really a season of new laptops. Major manufacturers are launching all kinds of new machines: mini laptops, dual-screen laptops, designer laptops... Yet, if there is one class to pick, it would be the mini laptop. Soon there won't be any manufacturer without a mini laptop among in its portfolio. But here is one that is different.

Mini laptops are supposed to be cheap machines to be used for Web-surfing and email. The Atom processor was built to bridge the gap between mainstream laptops and the smart phone, and so far most buyers of the mini notebook (or netbooks) were using it as a second or even third PC in the house. Few, if at all, mini notebooks come with a price tag of higher than $500, and most are under $400. Sony's new 8-inch Vaio Lifestyle PC costs $900.

It is the world's thinnest notebook — as thin as a mobile phone — and weighs only 640 grams. It features Windows Vista (most netbooks use XP), and virtually every tool that you need to connect to the Net: Wi-Fi, 3G, Bluetooth and even GPS. Its battery would last for four hours, according to the company. All in a design that is meant to make a statement.

Lenovo Thinkpad W700

The Thinkpad line of notebooks is probably among the ugliest notebooks ever made, but most users would have used their fingers and brains to make up their minds. Aesthetics is the last word that would come to your mind when you look at this two-headed monster weighing 5 kg, but it is supposed to work beautifully for professional photographers. It is categorised as a mobile workstation anyway, and is among the largest of its kind.

The W700 has a 17-inch screen, and another 10-inch that can be slid from behind the first one. It is supposed to have an enhanced colour display, capable of showing more colours than others. There is a colour calibrator near the palm rest (a feature useful for photographers), along with a digitiser (usually found only in tablets). You can do your normal Web-surfing on the secondary screen, while editing photos or videos on the main screen. It has three video ports, five USB ports, the usual Thinkpad keyboard and an extra numeric one to boot.

It also has two hard drives and pointing devices, and a workstation graphics card with a powerful 3D graphics engine. In case you are wondering, it comes with a quad core processor.

BEYOND LOOKS: The dual-screen Lenovo W700 may look ugly, but it is a professional photographer's delight

AP

Tech Talk

POWER OF TOUCH: The yet-to-be-launched Palm Pre (below) and LG's wrist watch phone (right) are among the most eagerly awaited gadgets this year

Palm Pre

When you think about the word PDA, you first think of the Palm-Pilot. This innovative product by Palm Inc. revolutionised mobile computing, when first introduced in 1996. Sales of the Palm have declined in recent years, as other status symbols such as BlackBerry and iPhone have arrived on the scene. In the previous quarter ending 28 November 2008, Palm's smart phone sales dipped 39 per cent to $171 million.

Now Palm has released a new smart phone, in what could be one of the most important product releases in the gadget world after the iPhone. It is called the Palm Pre, and offers a Web operating system (OS) — made by Palm itself — for the first time in a Palm product. It has a sliding QWERTY keyboard, and other features that are now standard in smart phones. The Web OS, however, has come in for a lot of praise from those who have had the first look.

Palm's Web OS keeps the user constantly connected to the Web, and introduces a feature called Synergy. This can recognise the same contacts from multiple sources — Outlook, Facebook, Google — and present them as one listing. You can see your calendar as layers or one view, combine messages from the same person into one view, and do many other similar clever things. But is it enough to take Palm out of the woods? We won't know till the product actually reaches the market. From current indications, it may still be several months before it arrives even in the US.

LG Watch Phone

The gadget world has been expecting for a while for mobile phones to migrate into watches. It has finally happened with LG launching its 3G watch phone. The phone is a slim wrist watch with a phone, and was shown briefly on stage at the Consumer Electronics Show (CES) in Las Vegas a few days ago. It will not be available until the second half of the year, and that too in Europe first.

According to reports, the phone is surprisingly small and yet surprisingly easy to use. It measures only 1.43 inches diagonally, but has a touch-screen, using which the user could dial numbers or type a message. It has a music player, and the product supports stereo bluetooth, a useful feature for a small device. This tiny device even has a camera that can also be used for video conferencing. However, much of the other details of this product are still unclear, as the company has chosen to remain secretive about them.

NOT JUST HYPE: Skype has launched its mobile version, which can make calls to other Skype-enabled devices

Skype For Phones

This product stands out from all the others featured in this section. It is not a hardware product but a piece of software. Skype has just launched its mobile version. You can download it and use the internet to make a call to another Skype-enabled device. It is called Skype Lite, and it does not yet offer video capability.

Now comes the catch. The software works only on phones enabled with Java or Google's Android Operating System. The Android is not yet popular in India, but five manufacturers (LG, Samsung, Sony Ericsson, Motorola and Nokia) sell phones with Java. Skype has also announced a new version for Atom-powered mobile

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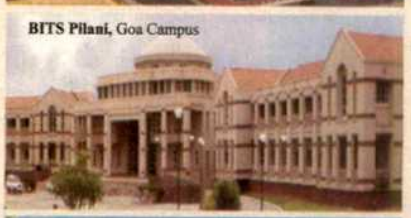

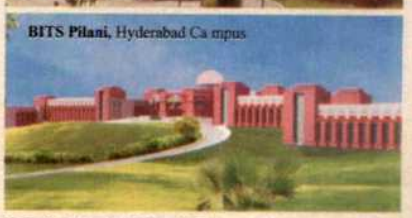

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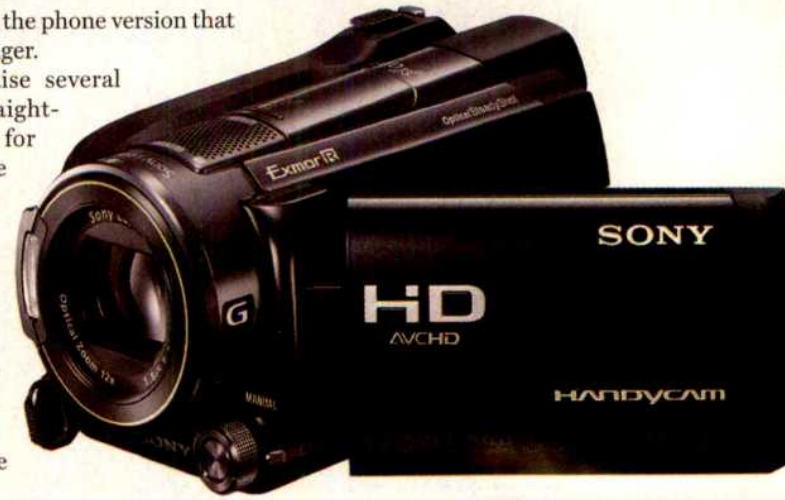


BETTER VIEW: Sony's GPS-enabled HDR camcorder (Right) has the ability to take videos in low light

internet devices, but it is the phone version that can become a game changer.

The product can raise several questions. It can straightaway reduce revenues for the operator, just as the desktop version of Skype did. However, telecom companies do not sell desktops, but many of them sell phones. In fact, you can get some high-end phones only through the operator. Will any company sell a device that can reduce its revenues?

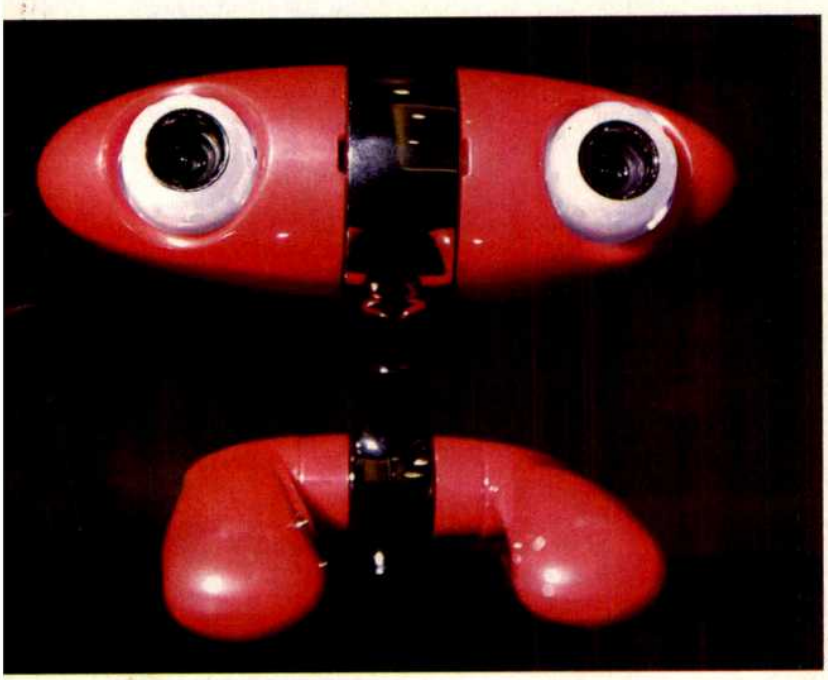
Minoru 3D Webcam

We live in a 3D world, but most of the cyber world is still 2D. But not for too long. This year will probably be a watershed for 3D gadgets, as we will see the first set of gadgets that will let us make the shift from a 2D cyber world to a 3D cyber world.

The Minoru 3D webcam is the first among these firsts, and is already available for purchases online. It will appear in stores in the US and Europe soon.

One might wonder about the real difference a 3D webcam can make to our lives. Well, connect a 3D webcam to the internet and you can see the difference. A 3D webcam would work well with all the usual internet applications such as Skype, Yahoo! and other messengers, OoVoo and so on. Imagine that you are travelling and your relatives can see you in 3D over the internet. The Minoru webcam can accomplish that.

However, connecting an internet application such as Skype is only the beginning. 3D webcams can make a difference to YouTube as well, as you can use this product to upload 3D videos. Sooner rather than later, 3D cameras will make a significant difference to online gaming. The Minoru webcam can connect, just like any webcam, to the USB port. You need special glasses, however, to see the 3D images and videos. If you do not have a set, you can still see the pictures and videos in 2D.



A BIG DIFFERENCE: Minoru's 3D webcam has the capabilities to to capture 3D images, which can be viewed with special glasses

AP

Sony HDR Camcorder

Cameras and camcorders have probably reached a stage in their evolution where it is difficult to pack more features to top-end models that are truly useful to the ordinary consumer. High Definition is becoming standard, and will soon be part of most camcorders. What new features can we look for in a new camcorder till 3D arrives?

There is one feature — or lack of it — that still plague many camcorders: the ability to take videos in low light. Sony's latest line of HDR camcorders are supposed to make a good advance in low light performance. It also has GPS capability, and can location-tag photos automatically (called geo-tagging).

With a global positioning system (GPS), it can automatically detect time zones. The camcorder has Dolby digital surround sound recording capability, a 240-GB hard drive, face detection capability, shutter smile (takes your pictures only when you smile), and a 3.2-inch touch screen. The best ones in this line come at a price tag of $1,500.

presents the launch of the

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The most awaited business ready reckoner, the Businessworld Marketing Whitebook 2009-2010, is about to get launched. The event will be followed by a panel discussion on 'Building Brands in a Slowdown'.

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Venue: Ballroom, ITC Grand Central, Parel, Mumbai.

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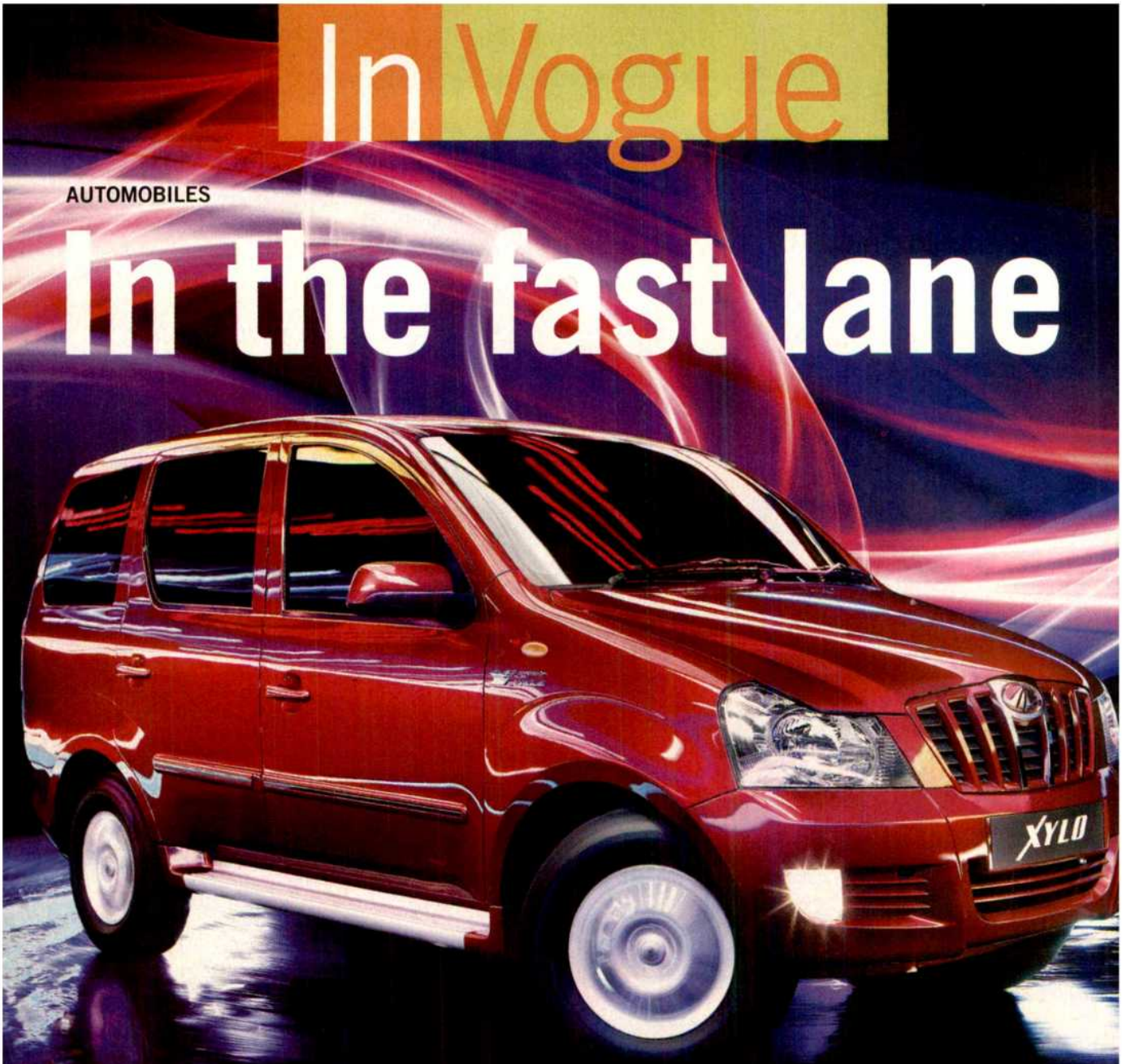
AUTOMOBILES

In the fast lane



Despite the slowdown, three auto majors have launched their luxury vehicles recently

By Vishal Krishna

POWER-MATIC: M&M's Xylo is a crossover between a sedan and a multi-utility vehicle

IN MOVIES, THE MYSTICAL BOND BETWEEN MAN and machine tells a great story. Similarly, in the business of cars, the story is complete for an automobile firm only when the customer looks back at the vehicle and says, "Am I glad I bought you." This week, two top automobile companies, Mahindra & Mahindra and Fiat India, would be happy with such a reaction from the customer. Their new vehicles, Xylo and Linea, have just hit the road, and might tempt people to get money out of their deposits even during the recession.

The two cars are unique because they offer a 'platter' of luxury at a very affordable price. By affordable, one means these are cars for a mid-level executive who wants to upgrade to a premium segment and yet have value for money

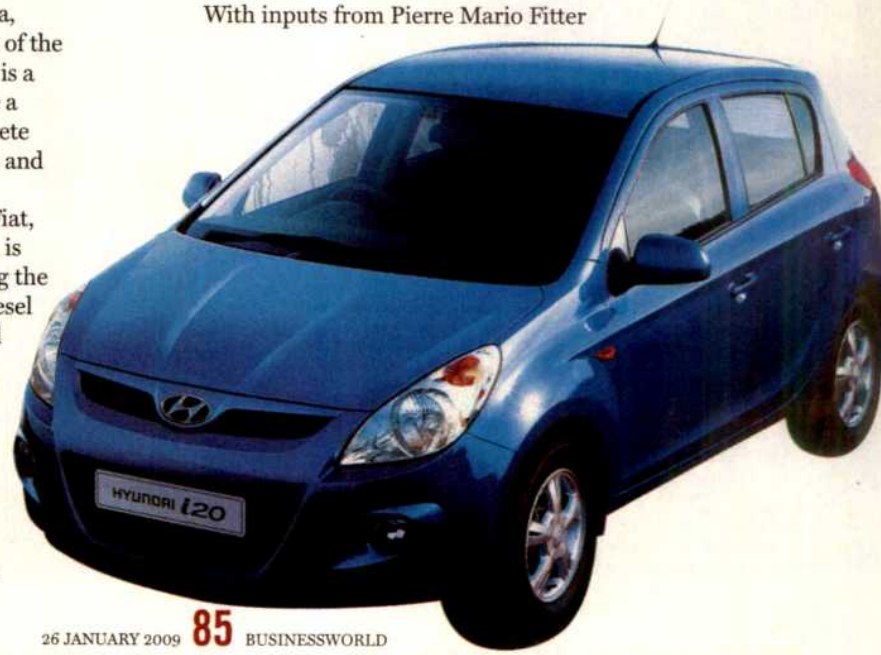
The Mahindra Xylo has attempted to create a new segment in motoring; it is positioned as a cross between a sedan and a multi-utility vehicle. Its base version, called the E2, is priced at Rs 6.24 lakh (ex-showroom, Delhi), and comes with power steering, central locking, power windows, flat front bed seats and remote fuel lid openers. The Xylo's strength lies in not being wobbly at high speeds. After getting used to the crusty gear shift, it promises a pleasurable drive. Its 2.5-cc diesel engine belongs to the family of modern rail technologies, which burn diesel molecules better for greater fuel efficiency, and powers on 112 brake horse power (bhp) at 3,800 rpm. The body is built with high strength steel, which makes it much lighter than other M&M utility vehicles and weighs 1.8 tonnes.

The higher version, the E8, costs Rs 7.69 lakh and is a real price beater. Its digital drive assist system (DDAS) acts as a navigator and displays high speed warnings. After four years of research, the Mahindras' feel that the "era of sedans is over". Going with a campaign using the same phrase, M&M hopes to make over 2,000 Xylos a month. As Anand Mahindra, vice-chairman of M&M said at the launch of the Xylo, "This is a great leap for us. Even if it is a recession, a good product will always have a market." This 'crossover' vehicle will compete with the likes of Maruti's SX4, Swift Dzire and Hyundai's Accent and Verna.

Contrary to the Mahindra campaign, Fiat, the famed car manufacturer of old India, is trying to regain its lost glory by launching the C segment sedan, Linea, in petrol and diesel variants. The car is a global favourite and is a winner at its price point. Its higher version, Emotion, is priced at Rs 8.36 lakh (ex showroom, Mumbai), for the diesel version, and Rs 7.20 lakh for the petrol segment. The car's diesel engine is the award winning 1.3 multijet, which is known for its 90-bhp topped with fuel efficiency. For a litre, it can do 14-15 km in the city and 17 km on motorways. This reporter took the Linea diesel for a spin and found that it is the car to look out for this year. Although a wee bit slow to pick up, the drive is smooth. Its two airbag compartments in the front ensure maximum safety. The only drawback is that its seats are too low for comfort, but still makes up for being spacious. Its USP is its Blue&Me hands free software, which was developed by Microsoft and Fiat. This voice-activated device reads SMS, makes phone calls, can download music and integrate a GPRS. The boot space is 500 litres, making it a family sedan.

Hyundai, too, launched in December an upsized cousin of last year's runaway hit, the i10. Titled i20, the company may score another hit. It has a longer wheel-base, better fuel efficiency and more room. But it is slightly slower out of the starting block and has a weaker engine. On looks alone, the i20 demonstrates a major shift away from Hyundai's traditionally Asian dumpiness. Prices start at Rs 4.7 lakh. So, happy driving!

With inputs from Pierre Mario Fitter



LUXURY ON WHEELS: (Top) The Fiat Linea is already an international favourite; (below) the Hyundai i20 is a much improved version of the Hyundai i10

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CULTURE

Music for the eyes

SUPERHIT: The film features T.M. Krishna and Bombay Jayashri

IT IS NOT EXACTLY India's *Gimme Shelter* — a documentary on the 1969 US tour of the Rolling Stones. *Marghazi Raagam*, a 110-minute film on a concert — the first in the country — is pure, no-frills, Carnatic music. Sathyam Cinemas, which launched the film at its multiplex, says there were house-full shows for two weeks.

The timing of the film — the auspicious Tamil month of Margazhi (mid-December to mid-January) — featuring star vocalists Bombay Jayashri and T.M. Krishna could not have been more fortuitous.

Produced by C. Srikanth's Aghal Films, *Marghazi Raagam* is a dream come true for Jayendra Panchapakesan of Real Image, who conceived and directed it. "For over four years, I have been living with the idea of giving Carnatic music an evocative appeal in terms of presentation. Finally, the technology became available."

Ace cinematographer P.C. Sreeram, who has often collaborated with director Mani Rathnam, shot the film with seven high resolution RED cameras in the first THX-certified studio in the country. However, the lighting, with its distracting interplay of strobe-and-shadows, is an irritant.

Where the film really scores is late H. Sridhar's six-track surround sound. The film is also expected in the DVD format, and on Blu-ray.

Lalitha Sridhar

Fancy Dressing: School children rehearse as cranes for the opening of the Shenyang Qipanshan Snow World in Shenyang, north east China.

AP

ART

India on canvas

A VILLAGE BELLE demurely peeping out of the canvas with her *dupatta* tucked between her teeth; a Bengali lady, draped in an exquisite red sari trying to balance a ritualistic pot on her head; and a young mother sitting with her baby in her lap — her hair quite discernibly wet under her *pallu*. Typical Indian images but the hand that created them on canvas is not Indian but German.

Kristin Pukall displayed her paintings in New Delhi last month, her second solo and fifth group exhibition, and her work certainly aroused the interest of art-lovers in the city.

A holiday in India, more than three years ago, changed everything for Pukall. A trained lawyer, she worked with the German federal ministry of economics in Berlin, until the summer of 2006. Then art called and Pukall quit her job to paint in India, professionally.

GERMAN TOUCH: Pukall is known to work at breakneck speed

Pukall is an artist in a hurry. It is almost as if she is trying to make up for all the lost time in finding her true vocation in life. The almost breathless speed at which she works is exemplified by the fact that in a span of about two years, she has painted about 70-80 works.

Oil as a medium does not keep pace with her speed, so she prefers acrylics. "Oil is smelly and dries slowly, whereas I am a fast worker," she says. Her huge canvases, some measuring as much as 5X6 feet, remind one of the film hoardings and posters of yore. Pukall is now preparing for her next show at the India Habitat Centre in Delhi, in February.

Shalini S. Sharma

BON VIVANT

Clear craftsmanship

IT IS WHEN YOU TAP YOUR WINE GLASS THAT YOU KNOW the true worth — not of the wine, but of the glass. If you are rewarded with a crisp, bell-like tone, it is made up of truly authentic crystal.

Swarovski provides the multidimensional touch, feel and look that the Indian wine-drinker is now looking for. The legendary Austrian crystal major's ware with crystal-filled stem and faceted clear base is a unique style statement.

At Swarovski, handiwork rules. The stems are stuck by hand under the bowl before a piece of molten glass is added for the base. "The wine glass in our portfolio has a proper stem and shape that concentrates the flavour and aroma to emphasise the characteristic of any given wine," says Sukanya Dutta Roy, country manager of Swarovski India.

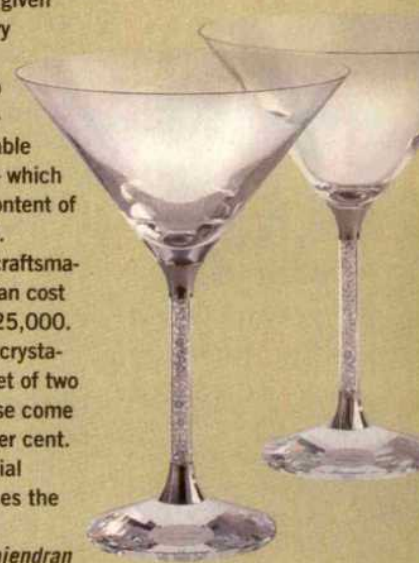
Swarovski believes that when held to the light, fine crystal should have absolutely no discolouration. It has impeccable standards when it comes to the cuts — which are sharp and precise. The high lead content of 30-35 per cent, makes them the finest.

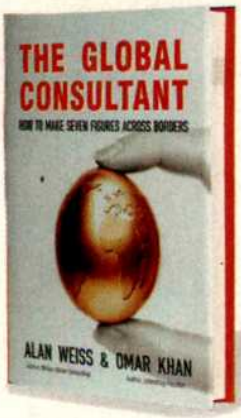
The cost reflects the purity and the craftsmanship. A set of Swarovskis Crystalline can cost anywhere between Rs 22,000 and Rs 25,000.

Swarovski has recently launched its crystalline white and red wine glasses — a set of two glasses priced at over Rs 22,000. These come with a high lead content of about 35 per cent.

"Perfect for dinner parties and special occasions, a crystal wine glass enhances the mood," says Dutta Roy.

M. Rajendran





Tips From The Jet-setters

by mohit chandiramani

THE GLOBAL CONSULTANT: HOW TO MAKE SEVEN FIGURES ACROSS BORDERS; BY ALAN WEISS AND OMAR KHAN; WILEY; PAGES: 240; PRICE: Rs 1,747

THE GLOBAL CONSULTANT, WRITTEN BY ALAN WEISS and Omar Khan, is to say the least an interesting collection of the authors' stories. Much of the narration is about events from Weiss and Khan's jobs in running moderately successful global consulting firms.

Anyone familiar with consulting as a profession, and the frills that come with it, is aware that travelling takes up much of a consultant's time. So, most of the book is dedicated to the authors' travel tales as they jet around the world earning their fees.

Every book has its good, bad and ugly (read: unwanted) sections; this one is no exception. First, the good. As a business consultant who claims at least some entrepreneurial zeal, I was intrigued when I first came across the title. Who wouldn't? Someone has just told you that they will show you how to make a million dollars in the profession you are in. Reading Weiss and Khan's stories gave me that rush to venture out and establish a borderless consulting practice of my own.

The exotic and rich travel experiences that they narrate certainly prove tempting; they almost make you want to live a life on the go, travelling to never-heard-of places each week. Rather helpfully, Weiss and Khan provide readers with a wide selection of cultural and business dos and don'ts. These would be useful as one exits a meeting in Pittsburgh, and prepares for the next in Prague. And since many of these tips come from the authors' personal experiences, you can be reasonably sure that they have been field-tested. These alone could be considered enough of a return on investment for someone to buy the book.

But as noted, there is a bad part. What disappointed me most about *The Global Consultant* was that it is far too one-sided to be considered an objective guide to the world of consulting. Weiss and Khan lure you into wanting to be a global consultant through their enthralling personal accounts, but they somehow forget why they wrote the book in the first place — as a guide to making a million dollars across borders. This is unfortunate because with decades of combined experience in running global consultancies, their insights into the nitty-gritties of managing a consulting firm could have been invaluable to readers. So, if you are looking for a management book with hard-core theories on establishing and building such a practice, then this might not be the book for you.

At its best, the book could have provided you with insights about how you can be an effective consultant. But it seems that much of the effort is focused on telling you about the lifestyle you could have. That is why I finished the book with a rather unsatisfying gap in knowledge. I would like to have read more about how I could transform my business from one of thousands of similar consulting firms to one that actually delivers value to customers, and earns me a million dollars a year.

And there are a few ugly parts too — ones that the authors will be mortified to realise have appeared in print. Early on in the book, Weiss and Khan mention the reputed management school Insead. But for some reason they place

BROWSING
Sudhir Singh Dungarpur
President and CEO, Q2AMedia

I am currently reading The Audacity Of Hope by BARACK OBAMA. Coming from the learning industry, Obama's thoughts on education are of great interest to me. What is also interesting is that the US's politics is not different from India's, as both have to battle similar issues — healthcare, education and employment. I prefer books on management, environment and autobiographies. I am looking forward to reading *The Green Collar Economy* by Van Jones, and *Inside Steve's Brain* by Leander Kahney.

ALAN WEISS is a widely known consultant, speaker and author. His firm, Summit Consulting Group, works with clients such as Hewlett-Packard, GE and *The New York Times*. He has been a visiting faculty member at the Case Western Reserve University and Tufts University.

OMAR KHAN was born in Egypt to Pakistani diplomat parents. He has lived in 11 countries and studied at University College, Oxford, and Stanford Law School. He is founder and senior partner of Sensei International, a global leadership development and consulting firm.

it in Switzerland. This came as a shock. To the best of my knowledge, Insead has only two campuses — one in France and the other in Singapore. Errors such as this one are inexcusable, and kill all credibility that the authors may have built up. And if Weiss or Khan's customers happen to read it, one shudders to think how much damage a stupid error such as this can do to their relationship.

On the plus side, the book is largely free of consultant-speak, and is a relatively easy read, as if your grandfather was telling you about the 'old days' and his adventures. It will provide at least some insight (even if slightly one-sided) for those who are considering a career as a consultant. For those, who are already practising in the profession but are wondering about what they should be doing next, you will only derive marginal benefits. Skim through for the nuggets; they might just prove handy in your next client meeting.

SELECTION 1

Road To Presidency

BARACK OBAMA
DREAMS COME TRUE
BY KAUSHAL GOEL AND HIDEYA NAKAMURA;
PUBLISHER: GBD;
PAGES: 248; PRICE: Rs 195

WRITING A POLITICAL BIOGRAPHY, THAT TOO ABOUT someone who is on the brink of taking over as the leader of the free world, can be challenging. In their debut biographical sketch, authors Kaushal Goyal and Hideya Nakamura have tried to capture the life and personality of America's new President.

Starting with his early life, the authors take the reader through every major event right up to the moment of his presidential acceptance speech in Chicago on 4 November. Some events and incidences are quite thought-provoking. Others clearly outline his philosophy, and so give an idea of how he would handle the challenges and responsibilities he is about to shoulder.

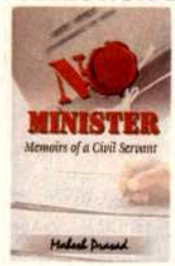
Unfortunately, Goyal and Nakamura's narration reads as little more than one event following another. At many points, these events overlap, making the reader skip pages in an effort to get to something fresh. Also, the numerous dates and numbers present all over the book can be rather off-putting.

But the book does give interesting details about Obama's political life, the recent election campaign and his final road to success. To digest this, one needs patience to get through all the dry details and known facts. No doubt, it could have been written in a much lighter manner, bringing in more of Obama's personality rather than a chronology of the events of his life.

BARACK OBAMA: DREAMS COME TRUE, while not a must-read and must-have in your collection, is a nice-enough way to spend a lazy weekend if you are interested in politics and want to learn a bit about what the next four to eight years may look like.

Janhavi Abhyankar

SELECTION 2



Memories Of A Bureaucrat

AUTOBIOGRAPHIES, PARTICUlarly of celebrities, generally sell well. But, I realised that a simple life story of a not-so-glamourous person can also have many interesting twists and turns. Mahesh Prasad, the author of NO MINISTER: MEMOIRS OF A CIVIL SERVANT (which initially I thought would be a bore), has splendidly narrated his experiences as a bureaucrat in a very simple and subtle way.

The book is about the author's personal insights on the bureaucracy, politics and life. From his childhood days in Lucknow to his life during his first posting as an Indian Administrative Services (IAS) officer in the same city, Prasad's keen observations about his surroundings keeps the reader hooked.

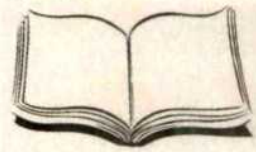
The book also can be of immense interest to those aiming for the IAS, as it details how the sanctity of the profession has diminished over the years. Prasad observes, "The career of a civil servant which may appear to be glittering to outsiders is an eternal struggle." As he says, there are those who are happy saying "yes, minister", and so reap benefits; those who dare to oppose them have to face the consequences.

Most of the book is about Prasad's work and the goals he achieved for public welfare in various postings and positions. He also describes in detail his problematic relationship with Maneka Gandhi, when she was minister and he was secretary in the Ministry of Forests and Environment. The instances prove that such a mismatch between a senior bureaucrat and his political boss can be damaging to public interest.

The book is replete with self-deprecating humour, and is definitely worth a read.

Pallavi Chakraborty

ALERT



THE BUSINESS TRAVELLER'S GUIDE TO THE WORLD

PENGUIN

Penguin's *Business Traveller's Guide To The World* is a neat, little book that is stocked with numbers, facts and figures. From Spain to St Kitts and Nevis, and Benin to Burkina Faso, the guide tells you everything about each country's their economy, its political system, the climate and even gives travel advisories, where applicable. Ever since the *CIA World Fact Book* became accessible online, there has been little need to print country reference books. But in the off-chance that your internet connection does go down (and it happens often enough), this will be a useful backup.

The Rescue Operation

THE RESPONSIBILITY FOR THE RUIN OF SATYAM IS unambiguous. Ramalinga Raju, who owned it up, is the primary party; the external auditor of Satyam, which issued a statement exculpating itself, is the secondary party. It is time to take our eyes away from the culprits, and to start looking at possible solutions.

AP

Satyam still belongs to its shareholders, not to the government or to the worthy gentlemen it has imposed upon the company

The point to start from is the figures given by Raju in his statement to the board of Satyam. According to him, the balance sheet of 30 September 2008 overstated assets by Rs 59.06 billion and understated liabilities by Rs 12.3 billion — a total overstatement of net assets by Rs 71.36 billion. The declared net worth of the company was Rs 72.39 billion. This means that by now, virtually the entire net worth has been wiped out; if the company were to be liquidated today, and the balance sheet reflected the fair value of the assets, the company would not be able to repay its creditors. The market value of fixed assets is typically higher than their book value, so their realisation may yield something extra. But like all software companies, Satyam is light on property; the book value of its buildings was just Rs 2.34 billion. So, capital gains on selling them can bridge little of the gap. It is interesting that while the 30 September balance sheet gives balances in Satyam's accounts in non-scheduled banks amounting to Rs 1.67 billion, it gives no details of the balances with scheduled banks amounting to Rs 57.78 billion. It was cash from these big accounts that was missing — and which the external auditor missed spotting. It is likely that Raju ran out of cash; that forced him to confess. That state of cashlessness is inherited by the surviving company, and would have to be reckoned with if it is to continue in business. Its monthly expenses come to Rs 5.5-6 billion; it would need to keep enough cash for a couple of months' expenses. This is its most urgent requirement if it is to stay in business.

But its greatest challenge would be to retain and expand its customer base after the disastrous publicity it has received. Many clients would be too committed to migrate immediately, so a good deal of the business may survive. The difficulty will be in attracting new business. Although the growth of the industry has slowed down, it is still growing at 20-25 per cent a year. If Satyam fails to match this, it will fall far behind its peers within a few years.

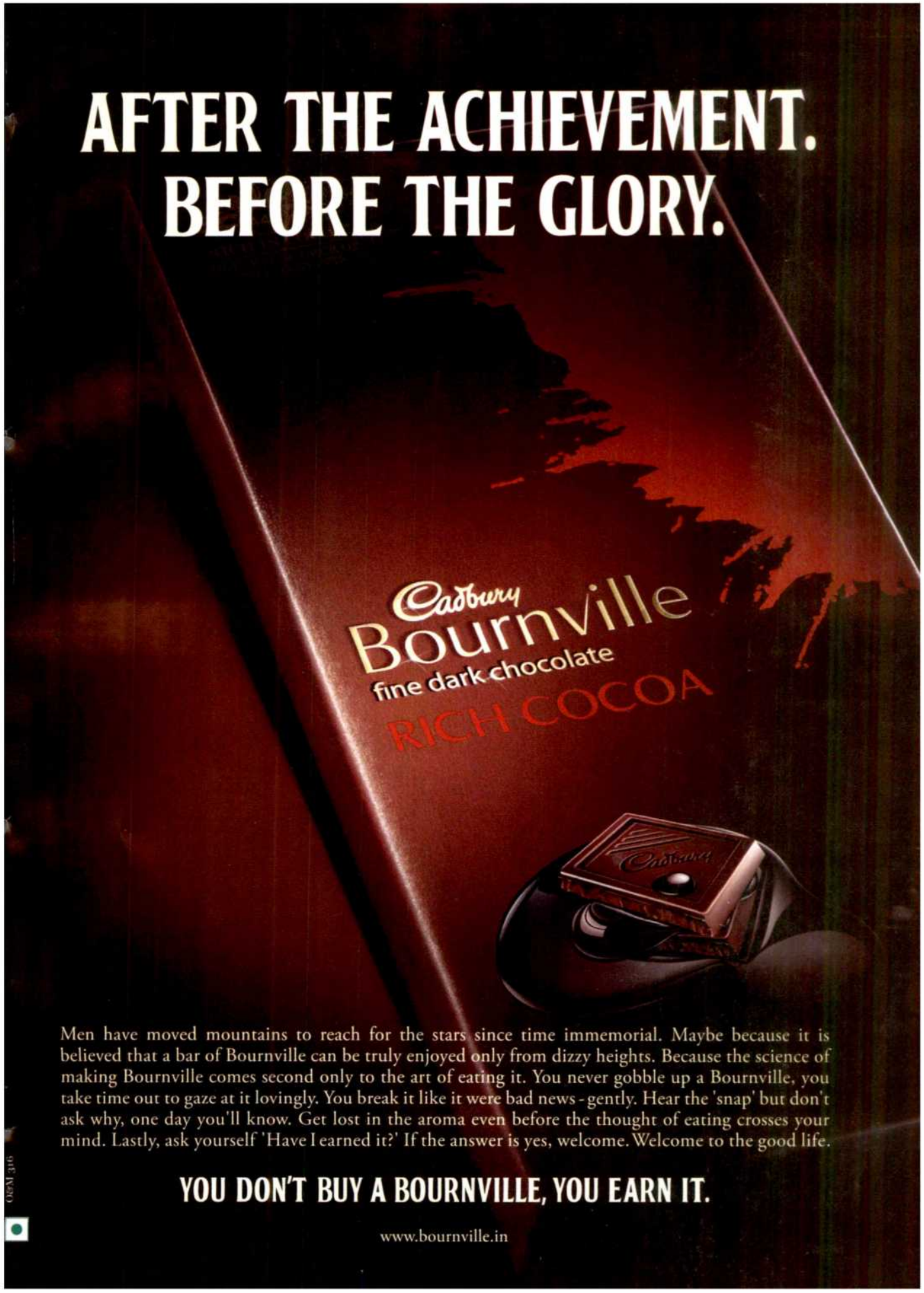
So, the company needs quickly to take tough strategic decisions. The Satyam board was restructured after Raju's disclosures, but the government dismissed it, and appointed its own favourites. While the board of worthies that the government has imposed upon Satyam is competent, those decisions should be taken for shareholders, It is disturbing that the government has ignored the shareholders in its choice of directors. In effect, the government has nationalised the firm without paying a penny for it. If it continues in its course, its arbitrary actions will destroy whatever confidence the shareholders have left in the company.

Thirty years ago, George Fernandes threw IBM out of the country, and nationalised its employees. Computer Maintenance Corporation, the residual company he created out of them, limped on for years until it was sold to the Tatas. Now Prem Chand Gupta has created a Satyam Maintenance Corporation, which faces a similar depressing fate. Satyam may well become a plaything of politicians, lose its best employees and valuable customers and end up in the junkyard.

While Gupta has followed in Fernandes's footsteps, he has not gone too far to retrace his steps. He must make it clear to his chosen board that it is not their task to manage Satyam, and to concentrate their minds on two tasks: consulting the major shareholders of Satyam, looking for buyers for Satyam, and bringing the two together. If Satyam is to continue as a viable company, it needs a new management. The government cannot provide it, however distinguished the people it brings in. Despite everything, Satyam belongs to its shareholders, and not to the government; the sooner it puts them in the driving seat, the better. It is for them to find managers; their best chance of doing so is a merger or a buyout. The government may facilitate this solution; it must not impose one.

It is possible that Satyam is too far gone, and cannot be sold at a price. If it comes to that, the government may inject cash into it as equity; it should still leave the management of Satyam to a professional software company. Its investment would be the price of saving 50,000 jobs. If it finds a good buyer, it may eventually make a handsome profit on the investment.

AFTER THE ACHIEVEMENT. BEFORE THE GLORY.



Men have moved mountains to reach for the stars since time immemorial. Maybe because it is believed that a bar of Bournville can be truly enjoyed only from dizzy heights. Because the science of making Bournville comes second only to the art of eating it. You never gobble up a Bournville, you take time out to gaze at it lovingly. You break it like it were bad news - gently. Hear the 'snap' but don't ask why, one day you'll know. Get lost in the aroma even before the thought of eating crosses your mind. Lastly, ask yourself 'Have I earned it?' If the answer is yes, welcome. Welcome to the good life.

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Microsoft

Business Dilemma #4

IS IT POSSIBLE TO IMPROVE WORKFORCE PRODUCTIVITY AND CUT COSTS AT THE SAME TIME?

Hirco

Our sales, marketing and service departments were operating separately, resulting in inefficiencies. Data was scattered, and often redundant. But after implementing Microsoft Dynamics CRM, we have been able to integrate teams and leverage on the better productivity by almost 40% as compared to last year.

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LUCY ROYCHOUDHURY | *Vice President, Customer Care, Hirco Developments*

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WHO'S KILLING WIMAX P.26 CORPORATE FDS ARE BACK P.22

Businessworld

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GENZYME'S HUMANE TOUCH

Henri A Termeer
Chairman

AGE 44

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The Maytas-Nagarjuna connection PAGE 24

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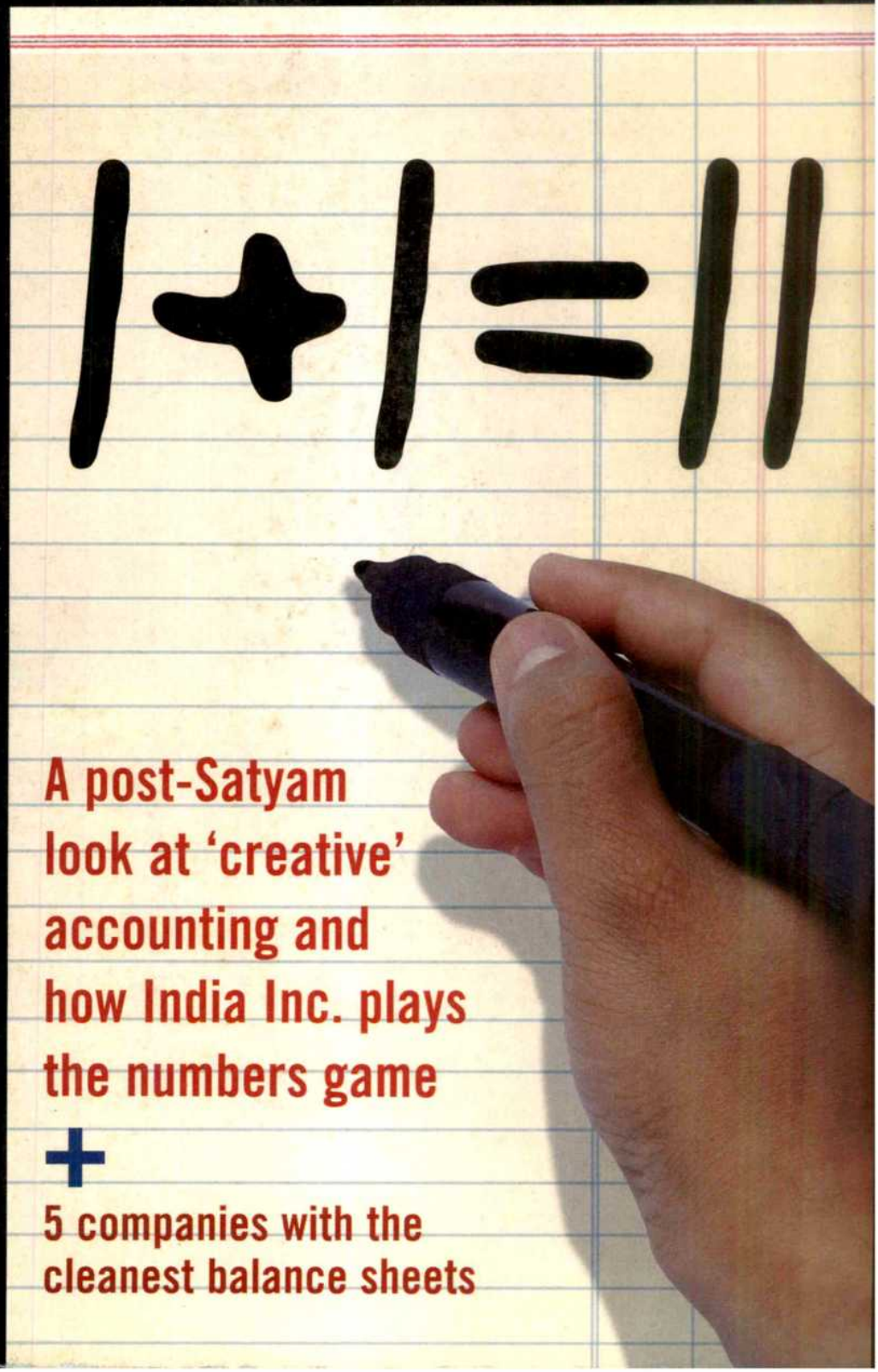

A post-Satyam look at 'creative' accounting and how India Inc. plays the numbers game

+

5 companies with the cleanest balance sheets

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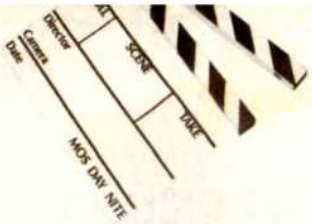

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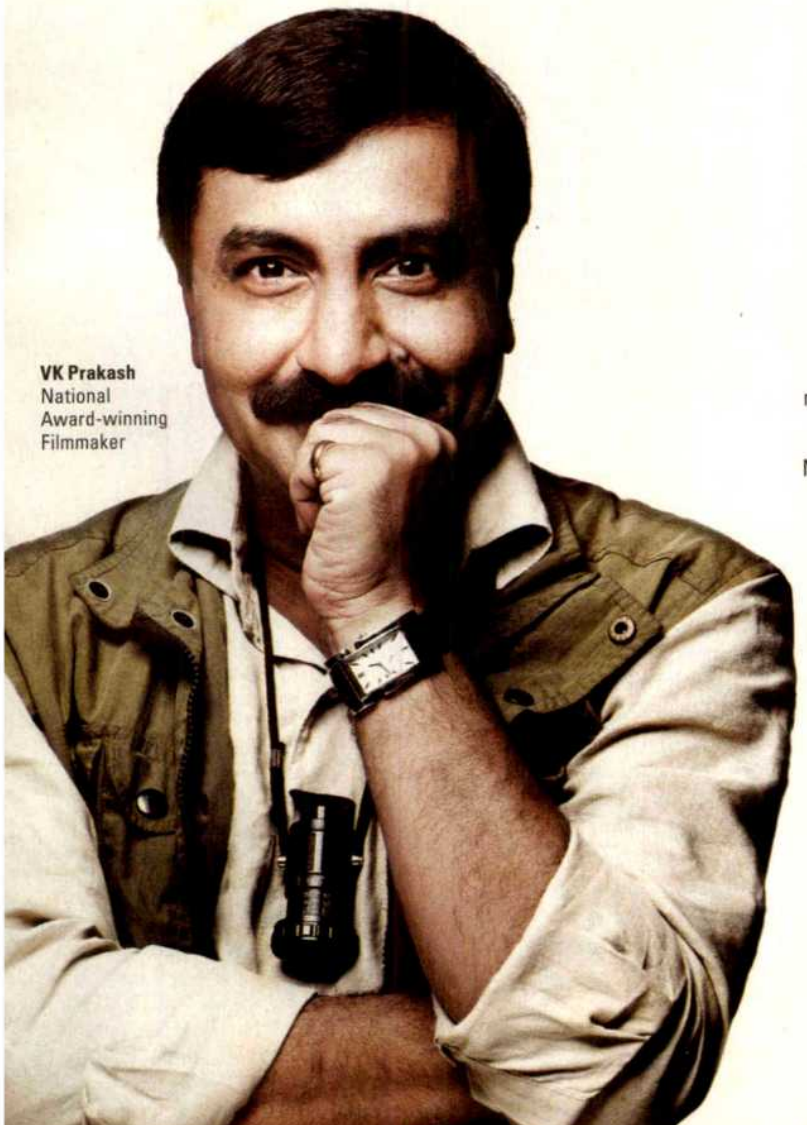

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With Eyes Wide Shut

PABLO PICASSO, H.G. Wells, Frank Correa, Akira Kurosawa... all people that define creativity and enrich our lives because of it. But what happens when accountants get 'creative'? For one, companies fall, as Satyam shows. But there is a deeper problem. Investors lose faith in companies and markets. Capital formation suffers and even 'good' players cannot raise money as easily and cheaply as they should otherwise be able to do. Growth gets cramped and, ultimately, a nation's descent into crony capitalism becomes its most significant barrier to development. Often it entirely derails nations, as we saw in Indonesia during the 1997 crisis.

India is not at this point and Satyam is an exception, we are told. But just as much of what the government, media and gurus-at-large told us about the economy over the past year has proved to be erroneous, if not totally fictitious, this too is wrong.

The truth is that 'creative' accounting practices are widespread in India Inc. Earlier, the consequences of this remained obscured by the froth of a boiling-hot economy. But now, the disruption caused by the slowdown is certain to cause the unraveling of some of the other Satyams lurking in our midst. So *BW* thought it prudent to identify the five most common creative accounting practices and see how they are being used by different companies. Sometimes, the use of the practices seemed reasonable; sometimes it was unclear. That is why we believe the government, industry bodies, the Institute of Chartered Accountants of India and regulators should proactively debate and investigate the use of creative accounting practices, and haul up any companies misusing them.

Of course, there will always be hucksters, and in a country where criminals are toasted in Parliament and cocktail parties alike, they cannot be expected to stay out of boardrooms. So, investors should become pickier about who they trust with their money. This will put a well-deserved premium on well-managed companies. To recognise such firms, we partnered with Clear Capital to identify five companies with the cleanest balance sheets in India. Not surprisingly, each leads its competitors in market share and in valuation, underlining the business value of honest management. Good guys, it seems, can finish first.

jehangir s. pocha, editor

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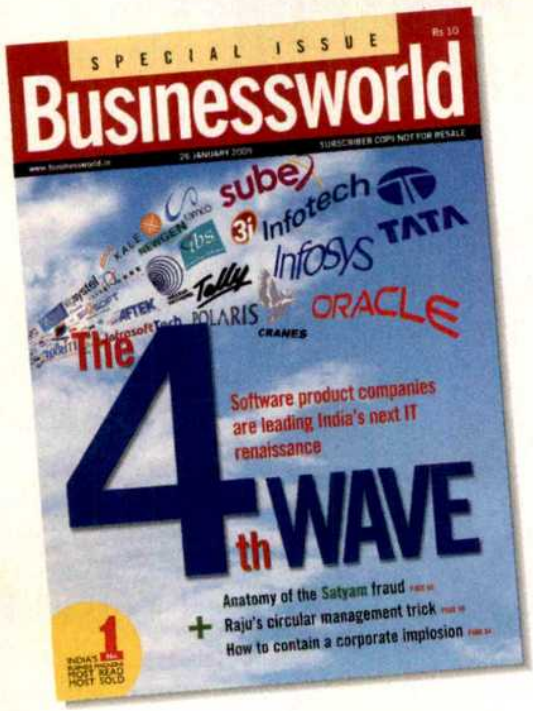

New Horizons

The Satyam episode may have dented investor confidence a bit but not all is lost for Indian IT companies. The industry is constantly reinventing itself by coming up with new software products. The transition from software services to software products is imperative considering that outsourcing contracts are set to slow down in the years ahead. The IITs and IIMs are also contributing in a big way by incubating software start-ups. What the government needs to do is to ensure that product innovation is not confined to these premier institutes only. The tier-II institutes, too, should be given assistance and funding to nurture talent. Emergence of more software product companies will also ease India's dependence on western countries for outsourcing contracts.

Anirban Das, Kolkata

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Tough Challenge

Trust is a vital element in business and so is customer retention and acquisition. The greatest challenge for Satyam now is to redeem lost trust after the devastating publicity that it has received. ('Anatomy Of A Fraud', *BW*, 26 January, 2009). Satyam will need to take difficult and tactical decisions to remain in the market and improve investor sentiments. Reconstituting the board by inducting government nominees is, surely, a step in the right direction. The new board should also take shareholder views while devising new strategies. After all, they are the owners of the company. In all the scams that we have seen in the past, it is always the small investors who are left high and dry. The government should play the role of facilitator rather than imposing anything on Satyam that perhaps will not yield the desired results.

Srinivasan Umashankar, via email

Ineffective Laws

All civil laws in this country have been deliberately made lame ducks to suit the convenience of the powerful to commit crimes such as cheating and violating contractual terms ('Shocked And Awed', *BW*, 19 January 2009). New legislations such as the Right To Information Act (RTI) raised hopes of the common man to dizzy heights, but the law is increasingly joining the bandwagon of slumbering worthless legislations due to administrative corruption. In India auditors too are handed down a straightjacket format to fill. Though the Companies Act provides for appointment/reappointment of auditors by shareholders, it is the management that appoints 'convenient' auditors.

Govindarajan Varadachari, via email

Deep Impact

The Satyam episode will definitely have an impact on foreign fund inflow into the country — many investors will liquidate their positions in the market also ('Anatomy Of A Fraud', *BW*, 26 January 2009). What is more worrying is that it could be just the beginning of such corporate governance malpractices in India. The scandal highlights that the present laws and regulations can easily be evaded. The authorities need to pull up their socks and make the system as foolproof as possible.

Rajesh Snehi, Agra

Letters may have been edited for brevity.

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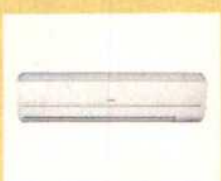

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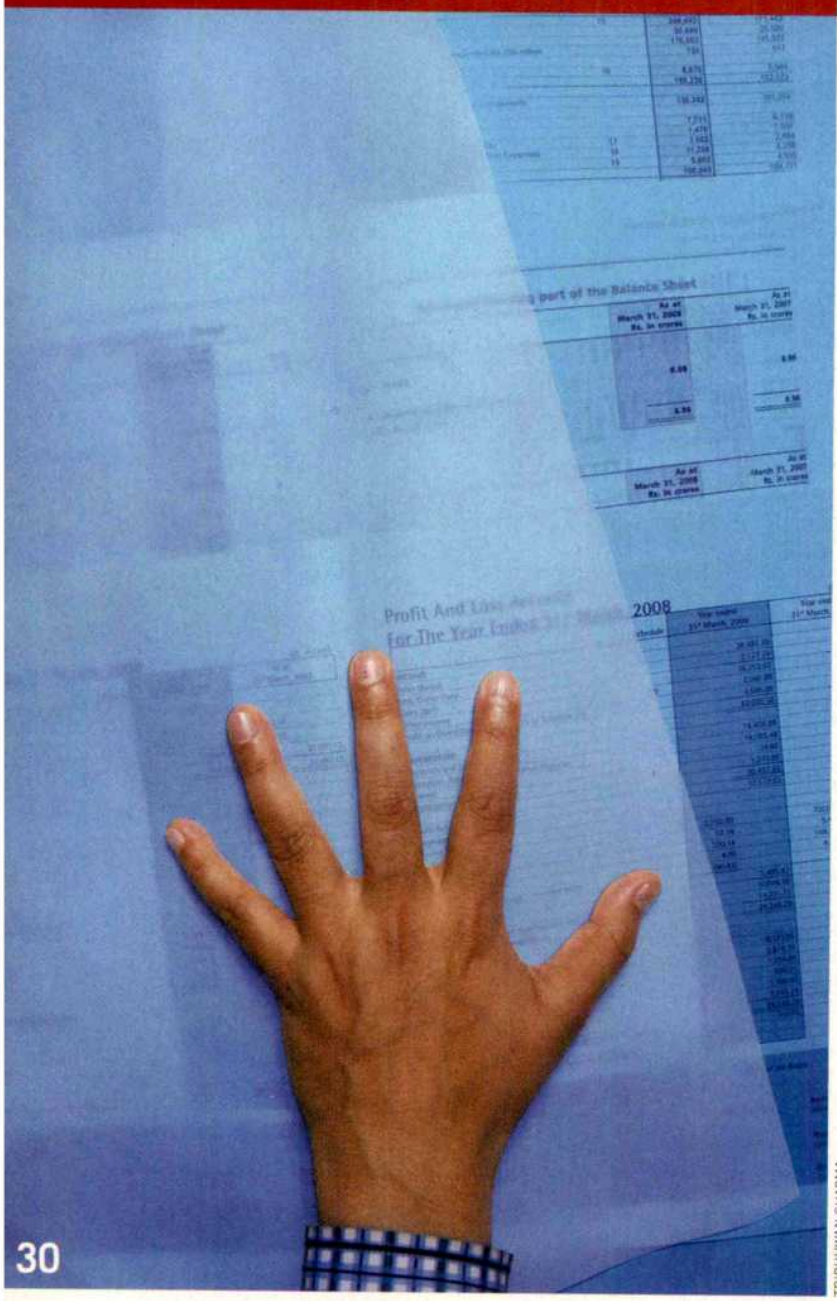

TRIBHUWAN SHARMA

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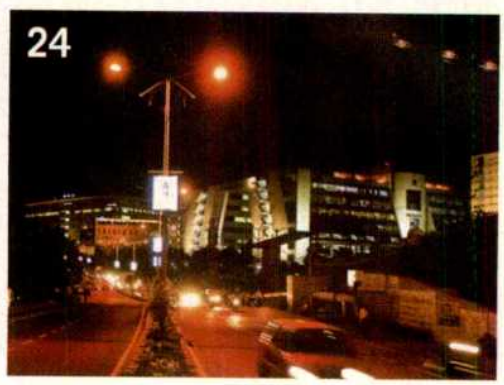

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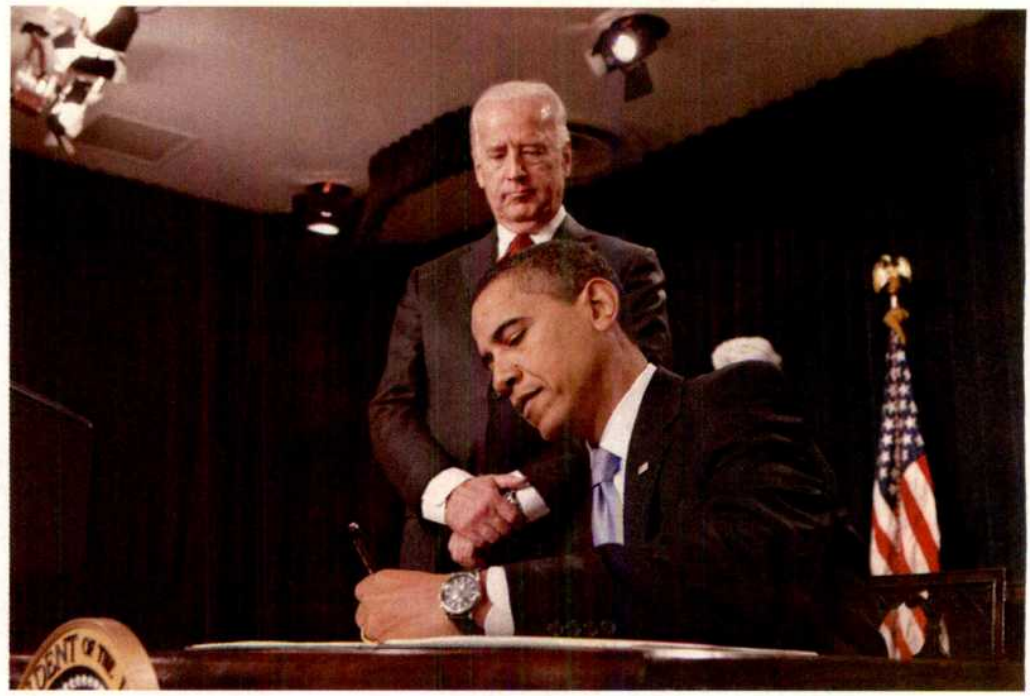
FOREIGN AFFAIRS

Agent Of Hope

Barack Obama's foreign policy moves will be keenly watched



AP

TESTING TIMES: The financial crisis and two ongoing wars will keep Obama's hands full

BARACK HUSSEIN Obama could not have taken over as the 44th President of the US at a worse time. The US economy is in tatters, unemployment rates are at an all-time high, the country's reputation around the world has been dented and the US is still at war in two countries — Iraq and Afghanistan. Now that the most-celebrated Presidential inauguration is history, all eyes are on what the new President will do next.

At home, Obama faces the gargantuan challenge of reviving the economy, stall job losses and infuse credibility into the banking system. To the outside world, he needs to send strong signals about what direction his foreign policy will take. Obama has been conspicuously silent about the recent escalation of crisis between Israel and Palestine, and there are some concerns in India. In one of his interviews, Obama had suggested that the key to solving the Afghan problem was Kashmir. He said that India should solve the Kashmir dispute with Pakistan, so that Islamabad can better cooperate with Washing- ton on Afghanistan. By linking Afghanistan with Kashmir, Obama not only brought back the blurred hyphen between India and Pakistan but extended it to Afghanistan.

But some think this hard-nosed approach will be watered down with Hillary Clinton taking over as Secretary of State. "Clinton — whom Obama once referred to as 'Senator from Punjab' — will understand the Indian sensitivities on Kashmir," says T.P. Sreenivasan, India's former ambassador to the United Nations.

One thing is clear. Obama will be remembered not as a Black President, but as one who took over at a most difficult time.

T.K. Vineeth

100 trillion. The value of the new currency note introduced by Zimbabwe on 16 January 2009.

QUOTE OF THE WEEK **"I was very disappointed about the way the leadership in these two countries negotiated."**

— European Commission President José Manuel Barroso on the Russia-Ukraine gas row

CORPORATE

Truce Not Yet

What's behind the reports of a patch-up between the Ambanis?

IT SEEMS RUMOURS about the death of the Ambani feud were greatly exaggerated. Some media reports, based on a note by stock analysis firm Avendus, claimed the warring brothers were smoking a peace pipe. Dalal Street gossiped that it was the slowdown that was the sobering factor, forcing the Ambanis to realise their feud — which saw both hurting each other's business interests — that was proving too expensive. New Delhi circles buzzed with the theory that with general elections due, the Ambanis were coming together in their common support of the Congress. But the younger Ambani's comment that the Bharatiya Janata Party's Narendra Modi would make a fine prime minister has ended that speculation.

The elder Ambani's camp has also denied any rapprochement, even serving Avendus with a legal notice. They say the rumour was either spread by some stockmarket operators trying to talk up the market or by the younger Ambani, whose companies are reportedly facing probes for alleged financial violations, including a Satyam-style misstatement of accounts.

However, not everyone is unhappy with the continuing war. "If the brothers were not fighting, no one would be able to keep them in check," a senior bureaucrat says. "This way they balance each other."

Team BW

TRIBHUWAN SHARMA

SANJAY SAKARIA

NOT SEEING EYE-TO-EYE: Anil Ambani (left) and Mukesh Ambani

Global NEWS

It seems the trail of controversies left by British Foreign Secretary David Miliband during his recent trip to India won't settle down soon. Miliband had linked terrorism to the Kashmir issue. Now, the visiting British Secretary of State for Business Peter Mandelson's request for a meeting with Prime Minister Manmohan Singh hasn't been granted as yet.

ENSURING BANKS' ACCOUNTABILITY

The US Treasury is demanding monthly reports to monitor the banks that received the most capital from the rescue programme.

Bloomberg US Treasury Capital Purchase Program Index*

*Tracks the stocks of the institutions that have opted to take part in the Troubled Asset Relief Program.

Sources: Bloomberg

AUTOMOBILES

ROADS TO NOWHERE

WITH THE ECONOMIC SLOWDOWN IN full throttle, defaults on commercial vehicle loans are on the rise. This will not only hit the fourth quarter results of non-banking finance companies (NBFCs) but also affect their ratings.

To avoid further defaults, NBFCs have tightened their purses — some are even demanding down payment of 35 per cent.

But that, according to Tarun Bhatia, head of Crisil Research in Mumbai, will lead to banks eating into NBFCs' business. "The losses could go up to 5 per cent of the total loans outstanding," he says.

With no sign of the recession ending, and with defaults rising, NBFCs are stuck between a rock and a hard place. But some firms such as Shriram Transport Finance (STFL) are banking on the rural economy. "There was a bumper crop in tier-III cities and was large enough to carry cargo on state highways," says R. Sridhar, managing director of STFL. "Our performance could be better in the fourth quarter."

Vishal Krishna

SETTING IT RIGHT

Human rights activists rally in front of the US embassy in Jakarta on 21 January 2009, calling on the new US President Barack Obama to put an end to torture at the Guantanamo prison camp. Obama has pledged to shut down the prison camp that was widely seen as a stain on the US's human rights record

REUTERS

STOCKMARKETS

Defying Logic

AP

Despite its collapse, people still traded in shares of Satyam

WILSON MIZNER, A US entrepreneur, raconteur and playwright once said that gambling was the sure way of getting something for nothing. Look at the people trading in the shares of Satyam Computers even after admissions of massive fraud, and you begin to wonder if he was right.

"There are people who believe that there is still some value left in the company," says a broker. And there are those who believe in the greater fool theory — the idea that a bigger fool will take what may be a dud stock, off their hands. But perhaps it is also the belief in the value of markets.

Trading in Satyam shares may actually reflect the faith that investors repose in the fundamental principles of markets, even in a company tainted by fraud. Adam Smith can take a bow.

Team BW

MEDIA

BLOOMBERG

Slim's gesture to NYT

THE CASH-STRAPPED *NEW YORK TIMES* (NYT), which recently pledged its Manhattan headquarters to raise $225 million, has got a second lease of life with Mexican billionaire Carlos Slim investing $250 million in the paper. This makes Slim the second largest shareholder in the paper after the Ochs-Sulzberger family, which has controlled the paper for the past 100 years. *NYT* is grappling with a migration of advertisers and readers to the internet.

Reality Check

BHP Billiton, the world's biggest mining group, is cutting about 6,000 jobs worldwide to cope with falling demand for its products. The lay-offs follow similar cuts by rival Rio Tinto.

ARTS

IT HAPPENS ONLY IN INDIA!

IN THE SEASON OF frauds, this one must surely be the most audacious yet.

An exhibition of paintings by France-based Indian artist S.H. Raza was inaugurated by the painter himself on 17 January at Dhoomimal Art Gallery in New Delhi. But it turned out that the 35-odd paintings put up at the show were not painted by Raza but only had his stamped signature on them.

This, the 86-year-old artist himself

discovered when he began taking a round of the exhibition.

Copying a master's painting is one thing; but here the paintings were not even copies. Even the invitation cards bore a painting, which was not Raza's!

What is intriguing is how the gallery owners failed to notice that the works, supposed to be of the 1930s vintage, had fresh paint on them, beats logic.

Shalini S. Sharma

TOP 10 LISTINGS

TOP IT FIRMS IN THE US RUN BY INDIANS

1	Adayana, Indianapolis
2	Applabs, Philadelphia
3	Cignex, Santa Clara
4	Collabera, Morristown
5	Headstrong, Washington DC
6	HTC Global Services, Troy
7	Idhasoft, Norcross
8	Infogain, Los Gatos
9	Metabyte, Fremont
10	Mindlance, Hoboken

Source: SiliconIndia

IPL champion Rajasthan Royals is busy raking in cash and cutting costs

SPORTS

Cash Before Cricket

THIS IS ONE UP ON Shah Rukh Khan. While Khan is only making a television show to add another revenue stream to his Indian Premier League (IPL) club, Kolkata Knight Riders, Rajasthan Royals' Manoj Badale has decided to have a movie made on his club.

A sports movie, it will celebrate the success of the underdog against all odds, mirroring the Royals' IPL wins of 2008. The club will pocket $20 million from the movie deal with an undisclosed Bollywood studio. Badale is also planning to sell 50,000 DVDs of the Royals' matches in the previous IPL season. To further

SOUND OF MONEY: Rajasthan Royals will pocket $20 million from a movie made on them

augment the club's earnings, he will take the team on a world tour, where it will play against local clubs for a fee.

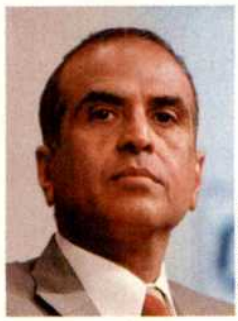
Despite being the champion club, Royals still faces the impact of the general economic panic. Badale has abandoned plans to sell a part of his stake in the club, as the offers are not in accordance with his expectation of the club's profitability.

Also, Badale is yet to sign up a shirt sponsor for the 2009 IPL season as he is holding out for a better deal. He is also looking to trim player cost by hiring some uncapped ones, outside the IPL's player auction system, and has the option of selling some of his surprise performers to richer IPL franchises for a profit.

The Royals' wage bill, which barely crossed the $3.3-million floor mandated by IPL, was the least of the eight IPL franchises last year.

It certainly pays to win, but more so if done at a bargain.

Feroz Ahmed


BIVASH BANERJEE

Focusing on non-voice verticals
Sunil Bharti Mittal's Bharti Airtel has launched its internet protocol television (IPTV) service in the national capital region of Delhi, Gurgaon and Noida. With this, Bharti has become the first private player to offer IPTV services in the country. The launch is part of the company's strategy to expand revenues from non-voice verticals.

Staying put
Bangalore-based Sasken Communication Technologies has announced it will continue to do business with Nortel Networks. Faced with declining sales, the loss-making Nortel Networks filed for creditor protection last week. "Nortel has assured that business volumes will continue," says Neeta Revankar, chief financial officer of Sasken.

Strategic alliance
Italian carmaker Fiat and US giant Chrysler have created a global strategic alliance. As per the deal, Fiat will get a 35 per cent stake in Chrysler, while the troubled US firm will get access to Fiat's fuel-efficient vehicle technologies.

Clearing agent
The Bombay Stock Exchange (BSE) has signed a deal with Frankfurt-based Deutsche Bank. As per the deal, Deutsche Bank will act as a clearing and settling house of the bourse. "The alliance is a significant milestone for BSE as we aim to extend our footprint across the globe," says L. Soneji, chief operating officer of BSE.

BLOOMBERG

European partner
Tata Consultancy Services (TCS) has signed an agreement with Italy's Ducati Motor Holding. As per the agreement, TCS will offer ERP solutions for Ducati and its subsidiaries in Europe. The partnership will help Ducati improve its customer responsiveness and business efficiency. "With TCS as its tech partner, Ducati's ability to respond to customers and react to the evolving business environment will increase and help them to effectively use TCS's talent and expertise to boost their presence globally," says S. Ramadorai, CEO and managing director of TCS.

SUBHABRATA DAS

Going green
The Oil and Natural Gas Corporation (ONGC) is planning to be a carbon neutral company by 2011.

BW-THOMSON REUTERS PE DEAL TRACKER

$70.60 million: This year so far, the Asian PE market saw 10 deals worth $70.60 million as on 18 January 2009. China was the largest market in the region with 4 deals worth $60.60 million.

Top India deals

TARGET	INVESTOR	NATION	DEAL SIZE ($M)
Nuziveedu Seeds	Blackstone Group	US	50.00
Biotor Industries	Morgan Stanley Private Equity	US	39.46
Deepak Cables (India)	UTI Venture Funds Mgmt Company	India	42.12
SunTV Network	Nalanda Capital	Singapore	21.18
IL&FS Securities Services	Croupier Prive Private Equity Partners	US	10.00
Chakpak.com	Accel India Venture Fund, Canaan Partners	India, US	5.00
One97 Communications	Intel Capital	US	NA
Apnaloan.com Services	Sequoia Capital	US	NA
Global Talent Track	Helion Venture Partners	Mauritius	NA
One97 Communications	Intel Capital	US	NA

Figures for 12 December 2008-17 January 2009

Figures for 1 January 2008-17 January 2009

The oil major has set specific targets to complete organisation-wide Green House Gas (GHG) accounting, as GHG certification is a prerequisite to be carbon neutral. Being carbon neutral means achieving net zero carbon emissions.

Chinese view

IBM's Chinese subsidiary has picked up a $15.8-million stake in China's largest television set maker Changhong Electric. IBM Global Services China, the services and consulting arm of IBM China, has acquired the stake from Changhong's parent company and largest shareholder, Sichuan Changhong Group. Changhong also makes air conditioners.

Additional stake

Tata Communications has picked up an additional 30 per cent stake in South African fixed-line operator Neotel. With this, Tata Communications' total stake in Neotel stands at 56 per cent. "We will support Neotel's efforts to provide global quality telecom services in South Africa," says **N. Srinath**, managing director & CEO of Tata Communications.

BLOOMBERG

BLOOMBERG

Second lifeline

The British government is increasing its stake in Royal Bank of Scotland (RBS) from 58 per cent to 70 per cent by converting its preference share investment into ordinary shares. As per the deal, RBS will increase lending by about $8.26 billion over the next 12 months. The troubled bank recently posted a record loss of about $40 billion for 2008.

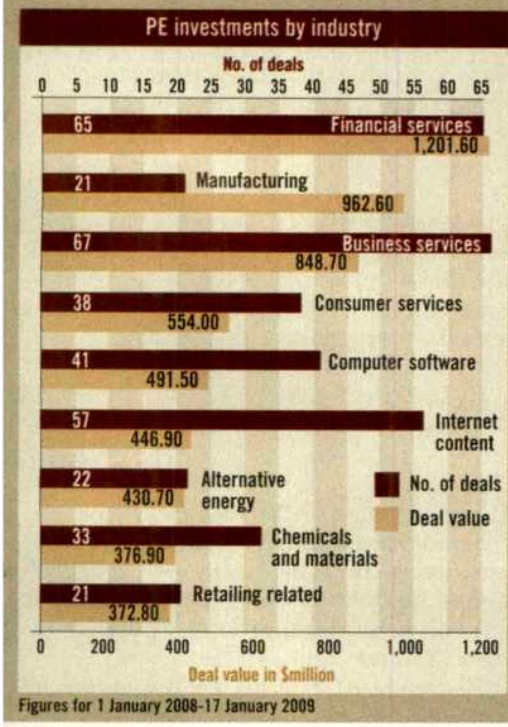
Bahrain connection

Bahrain Telecommunications Co. (Batelco) has acquired a 49 per cent stake in Chennai-based mobile operator S-Tel for $225 million. Batelco has partnered with Dubai-based Millennium Private Equity to purchase the stake in S-Tel, the Bahrain company says in a statement. The deal is expected to be completed during the first quarter.

Change of guard

Deutsche Bank has appointed the former CEO of Lotus India Asset Management, **Ajay Bagga**, as head of private wealth management in India. In his new role, Bagga will be responsible for growing Deutsche Bank's local private wealth management business, which focuses on serving the wealth management needs of high-net worth and entrepreneurial clients.

SUBHABRATA DAS



Figures for 1 January 2008-17 January 2009

Top Asia deals

TARGET	NATION	INVESTOR	NATION	DEAL SIZE ($M)
Nuziveedu Seeds	India	Blackstone Group	US	50.00
iPanel Technologies	China	Orchid Asia Group Management	Hong Kong	37.35
Orange Hotel Management (China)	China	DT Capital Partners	China	20.00
Nurien Software Corporation	South Korea	Northern Light Venture Capital	China	10.00
WuXi PharmaTech (Cayman)	China	Warburg Pincus	US	8.16
Shanghai Littlebobdog Children Supplies Co.	China	Jiangsu High-Tech Investment Group	China	8.00
iLemon Group	China	GSR Ventures	China	3.25
Accuris Company	South Korea	Korea Technology Investment Corporation	South Korea	2.39
Gangwon Wind Power Co.	South Korea	Darby Overseas Investments	US	NA
Bank of China	China	Hopu Investment Management Co.	China	NA

Figures for 12 December 2008-17 January 2009

Note: Sum invested is actual money taken down or disbursed to portfolio companies. PE deals are classified as investments where the investor is a PE firm. The above tables do not include investments made by angel investors, hedge funds, trusts and corporate investors. Such investors are taken into account only when they have invested alongside PE firms.

Log on to www.businessworld.in for the complete list

Quick Take

Should the government be given wide powers to censor media on security grounds?

We asked... Saurabh Azad, country head, HR, FPR Consultants; Preet Dhupar, director, finance and operations, BBC World News; Sunil Nihal Duggal, CMD, Vision Group; Sushil Kumar, Dean, School of Management, Gautam Buddha University; Madhavan Menon, MD, Thomas Cook India ; Navyug Mohnot, CEO, QAI; Abraham Thomas, COO, Red FM; Amit Varma, CEO, Audience Measurement and Analytics; Arjun Wallia, founder and chairman, MD and president, Walsons; Prasoon Joshi, chairman, Asia-Pacific, McCann-Erickson; Sunil Lulla, director and CEO, Alva Brothers Entertainment

"If it's a question of security of the country then I am in favour of certain kind of censorship."

Prasoon Joshi, chairman, Asia-Pacific, McCann-Erickson

"A code of conduct for coverage of emergency situation by media needs to be developed."

Abraham Thomas, chief operating officer, Red FM

"How can media play the role of a democratic watchdog if its actions are constantly under surveillance?"

Preet Dhupar, director, finance and operations, BBC World News

Yes 36%

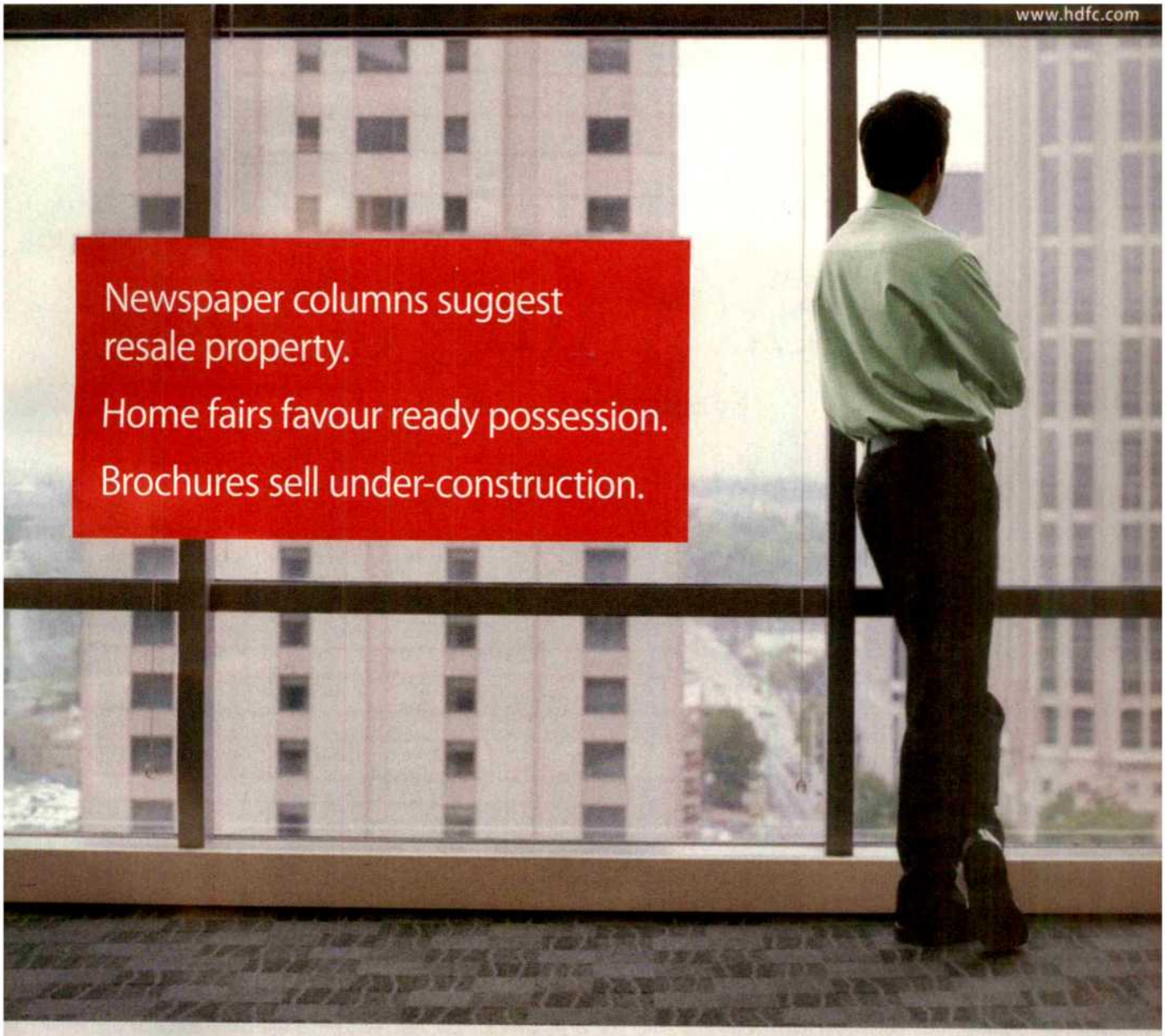
YES BECAUSE: It is a question of security of the country. A code of conduct for coverage of emergency situations by media needs to be developed and adhered to, and this should be done after consultation with all the parties involved. However, self-regulation is obviously more desirable. Live coverage of situations such as the 26/11 terrorist attacks in Mumbai could compromise the safety of the whole operation by giving vital information to the terrorists. This in turn can increase the difficulty levels for the security agencies involved in the conflict. Therefore a security protocol taking the media into confidence should be put in place for safety of all. The government should control the news content during crisis situations to ensure that the information is not misused by perpetrators.

No 46%

NO BECAUSE: The broadcasting industry is quite capable of taking stock and evolving its own code of regulation. What is required is formalisation of the format through which self-regulation works so that the media is able to demonstrate its independence and maturity — both to the viewers and to the government. In this day and age of public consciousness, media on its own will not survive if it acts in an irresponsible manner. How can the media thrive and play the role of a democratic watchdog if its actions are constantly under surveillance by the government? There should be no censorship till a system of checks and balances is also in place to ensure that the power is not misused to curtail our fundamental right to freedom of speech and expression.

Maybe 18%

MAYBE BECAUSE: The coverage of 26/11 terrorist attacks in Mumbai was irresponsible and exposed the security agencies involved. The news channels need to adhere to strict self-regulation and restrain from broadcasting content that can jeopardise the security of the country rather than sensationalise it for TRPs. Any censorship on news is bad for the society, however, the media should not lose sight of the fact that autonomy and responsibility go hand in hand. Media needs to be more sensitive and responsible towards disseminating information so it does not jeopardise security operations. Media should understand the criticality of the situation and act in the best possible manner to support the government machinery in the hour of crisis.



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Aftermath Of Satyam

by omkar goswami

Regulators need more teeth to enforce laws and regulations with speed and decisiveness

BY NOW, READERS OF THIS MAGAZINE ARE AWARE of the twists and turns of the Satyam saga. It's like Akira Kurosawa's 1950 film, *Rashomon*, where a woodcutter and a Shinto priest retell mutually contradictory stories about a woman, her dead samurai husband and a bandit as they wait out a rainstorm in a ruined gatehouse — leaving the viewers to determine which, if any, is the truth.

Did the promoter, B. Ramalinga Raju, and his co-conspirators inflate Satyam's books? Or was Raju's 7 January confession all smoke and mirrors to hide siphoning of funds to finance property deals? Was Price Waterhouse a negligent auditor? Or is it being made the scapegoat? Did the internal auditors capture serious deficiencies in financial reporting processes or were they blinded as well? Was it a few guys doing under-the-radar swindles for many years, or some mega-ticket items over the past year or so? Was the board sleeping on the watch, or did it get comprehensively duped for no fault of its diligence? Why did Raju confess? Like Rashomon, there are many conflicting and mutually contradictory stories — whose truth will be out, if it does, only after detailed investigations.

The purpose of this article is not to suggest yet another explanation of what happened because, perhaps, only Raju and his ilk know that in its entirety. Instead, it is to suggest what we can learn from Satyam regarding corporate governance, and indicate some do's and one major don't.

Let me outline a few things that we must consider very quickly. First, it is absolutely imperative that if promoters, their families and associates pledge any shares, this must be declared to the board, the stock exchanges and Sebi. Issues about an individual's right to confidentiality can be overcome by declaring the pledge as a part of the promoter group.

Second, no director belonging to the promoter group or the management should be a member of a listed company's audit committee. Thus, the audit committee of any listed company must consist exclusively of independent directors — and not two-thirds as currently prescribed by Clause 49 of the Listing Agreement.

Third, we have to debate the need to separate the role of the chairman of a company from that of a CEO. This is not a black-or-white issue and has much to do with extant customs and procedures. For instance, the UK has much more of this than the US. I am not suggesting one or the other. But I am advocating the need for a more intensive deliberation.

Fourth, it is necessary to realise that the present ceiling on the number of directorships is too generous, and can be inimical to good corporate governance. At present, Sebi specifies that no director can be a member of more than 10 committees of the board or be a chairman of more than five such committees. We need to review this. My sense is that in the post-Satyam era it will become increasingly difficult for independent directors to properly discharge their fiduciary responsibilities if they serve on 10 boards or more. It is not for law or regulation to prescribe the optimal number of board positions that a person should accept. But it can prescribe a ceiling. And 10 is more than enough.

Fifth, we also need to revisit a non-mandatory provision of Clause 49 — namely, that independent directors should step off boards after nine successive years. There was a furore across corporate India when the Narayana Murthy committee suggested it, which made it a non-mandated suggestion. We need a re-think. I believe it makes sense, because a very long association with any board can potentially diminish the objectivity and watchdog-like behaviour that shareholders have the right to expect from their independent directors. My preference is to start with 2004, when the new Clause 49 came into being; and count off nine years from then. So, anyone who was an outside director on the board of a company in 2004 ought to demit office no later than 2013.

Sixth, we should re-examine the rotation of statutory auditors — perhaps after six successive years. They also should not have too long an innings with any company. Six years is fair; it takes a year or two to get well versed in the company's business, and four more to leverage that knowledge to produce results. A related issue is whether there should be an overlap with the new auditors in the changeover year.

Finally, a bit on what we mustn't do. Let's not make knee-jerk regulations and come up with a Sarbanes-Oxley kind of legislation. India is over-regulated and under-enforced. Our laws and regulations suffice. Time we gave the regulators the teeth to enforce them with speed and decisiveness.

The author is chairman of CERG Advisory.
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Better Safe Than Sorry

by Sreevalsan Menon

One needs to be cautious before investing in corporate deposits

FINANCIAL PLANNER HUZEFA BHARMAL IS WORRIED. Many of his clients ask him to invest their savings in the deluge of corporate fixed deposit (FD) schemes with 'luring' rates of return. "Returns, essentially 200 basis points over and above bank FDs, seem to be the attraction, hence no one is bothered about paper ratings or the overall credibility of these companies. [But] FDs are basically unsecured instruments," he says. The trigger seems to be the Rs 2,700-crore FD issue from Tata Motors, ostensibly to part-fund the $2.3-billion Jaguar-Land Rover takeover. The open-ended FD scheme offering an 11 per cent return opened on 1 December, "Deposits received till January 20 are at Rs 375 crore," says Debasis Ray, the company's corporate communications head.

The Indian corporate sector is treating the general public as the lender of last resort — to finance its immediate working capital need of Rs 12,000 crore — as other sources of funds have simply dried up. Despite the Reserve Bank of India's best efforts, banks are uncomfortable about parting with liquidity, and external commercial borrowings have become a casualty of the global credit crunch.

But corporates have to compete with the more secure bank deposits to tap these funds. The only way to wean away depositors from bank FDs is to offer higher rates. Lesser known companies such as Jaiprakash Associates and Gabriel India offer 11 per cent for a three-year paper while Jagatjit Industries offers 11.50 per cent.

"Yes, company FDs are riskier as these are unsecured deposits," says Harish Sabharwal, chief operating officer at Bajaj Capital. "Investors should track the financials of the company and also the track record of the management."

But fund raising through this route has increased by more than 100 per cent in the current fiscal as compared to 2007-08. More than 110 companies, mostly from the manufacturing sector, are expected to float FD issues early this year. The big players include Ansal Housing and Construction, Ceat, Jindal Steel and Power and Mahindra & Mahindra (M&M). K. Chandrasekhar, senior vice-president for corporate finance, M&M, says, "We are offering two instruments, one-year deposits at 10.5 per cent and three-year deposits at 11 per cent." A Prime Database report says Indian corporates raised over Rs 1.7 lakh crore through 1,433 debt issues last fiscal, most of which were FD issues.

As per RBI, manufacturing companies can raise up to 25 per cent of their net worth through debt, while non-banking finance companies (NBFCs) can raise funds up to five times their net worth. However, Harish Engineer, executive director of HDFC Bank says real estate, broking and NBFCs still suffer from credibility issues.

Bharmal says depositors should only choose AAA-rated paper. Though credit rating is not mandatory except for NBFCs and the housing finance sector, most companies do get their issues rated by agencies such as CRISIL and ICRA.

Understandably so, as instances of defaults that wreaked havoc in the 1990s are still fresh.

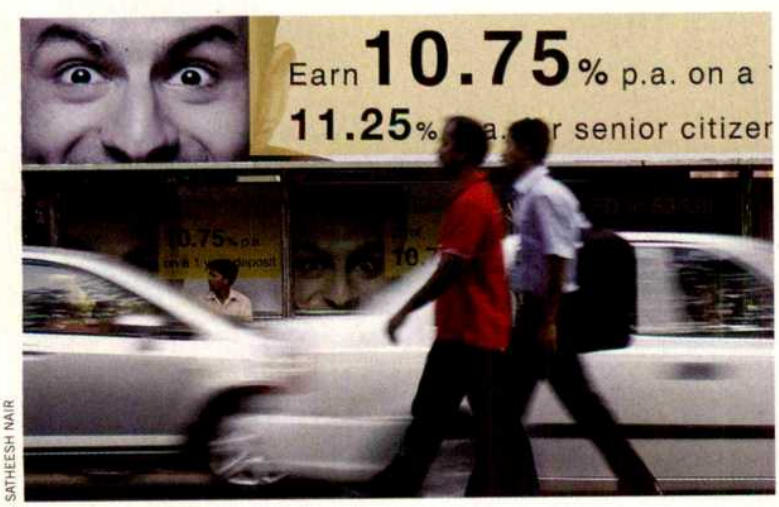
s.menon@abp.in

PROMISING PROFITS

Corporates have come up with deposit schemes with returns up to 12 per cent per annum

Television 18	12.00
Jagatjit Industries	11.50
Gabriel India	11.00
Jaiprakash Associates	11.00
JCT	11.00
Shriram Piston & Rings	11.00
ICICI Home Finance	10.75
Deewan Housing Fin.	10.50
Shriram Tran. Finance Co.	10.50
J.K. Industries	10.00

Figures are interest rates in per cent for one-year fixed deposit schemes
Source: *BW* research



SATHEESH NAIR

PLUMP OFFER: Corporates are offering higher rate of return than banks to lure depositors

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SANJAY SAKARIA

Partners In Crime?

by Kandula Subramaniam

NCC's balance sheet has financial twists similar to Satyam's

EVER SINCE THE SATYAM FRAUD EXPOSED THE WILD side of group companies Maytas Infrastructure and Maytas Properties' balance sheets, speculation over the group's real estate play has often led to another Raju family (relatives of Ramalinga Raju) that owns the Nagarjuna Group.

Friends sometimes, rivals at other times, the Rajus of Hyderabad-based Nagarjuna and the Rajus of Satyam have puzzled observers who wonder whether Nagarjuna Construction Company (NCC) is an associate or a competitor of Maytas Infrastructure. In other words, how distinct are the two families and their businesses?

Uncanny Competition

A.V.S. Raju-owned NCC's latest annual report quotes Henry Ford: "Coming together is a beginning, keeping together is progress and working together is success." For years, NCC and Maytas worked in several JVs and common projects ranging from roads, airports, ports and power. Then, their rival-yet-similar bids for the controversial Hyderabad Metro last October forced Delhi Metro's Managing Director E. Sreedharan to caution both the Centre and state governments against a "big political scandal".

When Maytas won the bid, Sreedharan wrote to the government — a copy of the letter is with *BW* — "the build-operate-transfer (BOT) operator has a hidden agenda", which is to "extend the metro network to a large tract of his private land holdings so as to reap a windfall profit of 4-5 times the land price". He said, "Hyderabad metro example is quite misleading as the negative viability gap funding has resulted solely on account of 296 acres of prime land being made available to the BOT operator for commercial exploitation". Brushed aside as "sour grapes", these allegations have now returned to haunt.

As per publicly available information, of the 12 JVs listed by Maytas Infra, at least six are with NCC. These include Maytas-SNC, NCC-Maytas (JV) (Pocharam) and IJM-SCL, Himachal. Other companies are listed as subsidiaries of either Satyam or Maytas, such as Pondicherry Tindivanam Tollway and Bangalore Elevated Tollway. Then there are companies such as Gulbarga Airport Developers and Shimoga Airport Developers where both NCC and Maytas have agreed to jointly develop with equity investments. In the power sector, Himachal Sorang Power is jointly promoted by NCC and Maytas. Then there are real estate ventures such as Jubilee Hills Landmark Projects, which is an SPV jointly promoted by ICICI Venture, NCC and Maytas Properties. A simple search has thrown up another 14 project companies where Maytas and NCC are "working together".

DARK SECRETS: Some Hyderabad-based firms have come under the scanner for their link with Maytas

This uncanny Maytas-NCC link made E.A.S. Sarma, a former secretary in the Union finance ministry who is actively tracking the Satyam developments, to write to the Andhra Pradesh chief secretary on 7 January 2009: "I would not be surprised if NCC follows the Satyam way. Please review all NCC projects in the government." Sarma names the thermal power project near Sompeta in Srikakulam district, allotment by AP Housing Board of 90 acres of land in Survey Number 336 of Madhurawada village near Visakhapatnam, and other land and projects "doled out to NCC". He also filed an application under the RTI Act asking for disclosure of land awards made by the state government to several companies, including Satyam, Maytas and NCC.

The milestones

- Four bids for Hyderabad Metro project. Maytas and Nagarjuna Construction (NCC) in separate bids refused to accept government grant. Reliance Infra and Essar bids wanted government grant.
- E.A.S. Sarma, former secretary in finance ministry, tells Andhra government, "I would not be surprised if NCC follows the Satyam way." He calls for "review" of all NCC projects in the government.
- Maytas and NCC have strong alliances in several projects. At least 14 project companies where the two are in joint ventures.
- Uncanny disclosures and non-disclosures in NCC's annual report.
- One independent director on Nagarjuna's board says he will ask promoters to spell out the details at the next board meeting.

The Plot Thickens

The two Raju families aren't just linked by joint ventures, the balance sheets of their companies are also similar: page 108 of Satyam's audited annual report of 2007-08 says the company had cash balances of over Rs 4,000 crore in both scheduled and non-scheduled banks. On page 116, the report only details cash balances worth Rs 203 crore in non-scheduled banks. Everybody believed these were there until Ramalinga Raju confessed to their non-existence. Observers are now questioning why Satyam's auditors left out scheduled banks.

Page 99 of Nagarjuna's latest annual report, which has been audited by Bhaskara Rao & Co. along with Delloitte Haskins & Sells (ironically, also Satyam's new auditor), details cash balances in both scheduled and non-scheduled banks worth Rs 250 crore but in the notes to accounts, Nagarjuna too gives out details of balances only in non-scheduled banks worth Rs 40 lakh.

The auditor also highlighted "contingent liabilities not provided for" in the consolidated accounts. These include: Letter of credit of Rs 2,029.91 million, counter guarantees given to the bankers of Rs 31,271.02 million and corporate guarantees given to banks and financial institutions for financial assistance extended to associates and JVs. The auditors also say in the case of companies such as Jubilee Hills Landmark Projects and Brindavan Infrastructure Company, both promoted by Maytas and NCC, "the consolidation has been made on the basis of accounts compiled by the management".

When asked to explain the corporate guarantees, NCC's Senior President for Finance Y.D. Murthy said such liabilities or guarantees are given in the construction business. On the issue of not detailing the cash balances in domestic scheduled banks, Murthy says "...it must be there" and clarifies, "...our lead banker is State Bank of India and we deal with nationalised banks". He then adds, "If you come to our office (in Hyderabad) I can explain the balance sheet."

When *BW* posed the same question of guarantees and details of cash balances to one of NCC's independent directors over the phone, he said, "Frankly, I don't know. We (NCC) should come out and explain our account to shareholders... there is a board meeting scheduled next week and I will raise this issue and ask the promoters to give out all details on the accounts."

Maytas' Metro Or NCC's Metro?

This may be the hour to come out clean but as far as the Hyderabad metro project is concerned, transparency hasn't yet dawned. At the Centre, there is already talk by officials in the Planning Commission of giving the project to the second lowest bidder (a consortium of NCC and Magna Allmore) or even call for a fresh bid.

On 20 January 2008, *BW* spoke to C.V.S.K. Sarma, principal secretary in the Andhra government, on the status of the Hyderabad metro. He says, "The deadline for financial closure is March 2008... we have time... we will wait until then" before a decision on the project is taken.

For closure by March, the project promoters should be finishing the detailed documentation between banks and promoters by January. Is Maytas in a position to do this? Or will the NCC consortia be asked to execute the project?

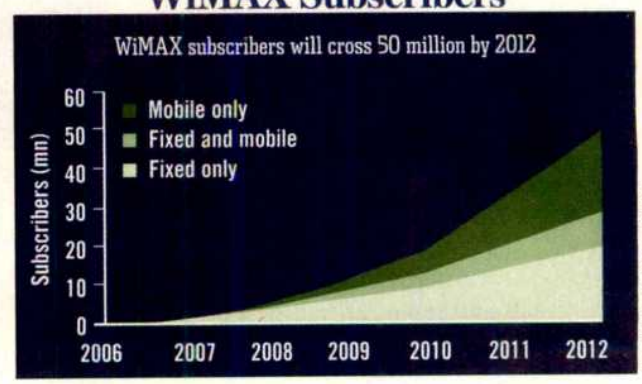
When asked whether NCC has the capacity to execute the project, Murthy says, "(at this stage) this is a hypothetical question... but definitely we cannot match the Maytas bid". When *BW* asked the same independent director whether NCC's foray into metro rail construction was discussed by the board last year, he again said, "I don't recall this issue being discussed." That's yet another twist in the Maytas-NCC tale.

kandula.subramaniam@abp.in

WiMAX by application

Source: Senza Fili Counsulting

WiMAX Subscribers



GRAPHICS: SATKAR J. YONZON

What Lies Beneath

by M. Rajendran

Why the launch of WiMax is being deliberately delayed

WORLDWIDE INTEROPERABILITY FOR MICROWAVE access, popularly called WiMax, may seem like an unfortunate victim of the deferment of 3G. But in reality, it is part of a well-orchestrated strategy of the GSM lobby to keep it at bay as long as GSM's own broadband wireless technology to rival WiMax is not ready. GSM is developing LTE or Long Term Evolution, whose global commercial launch is at least two years away while mobile WiMax, which allows download speeds up to 300 mbps on the go, has been rolling out across the world since early 2008.

Mobile operators such as Bharti and Vodafone, which sought 3G spectrum for high-speed services, had opposed introduction of mobile WiMax. They are now joined by Reliance Communications and Tata Teleservices as they launch their GSM services. Their objective is to capture as much of the voice market and hold back the high-speed data market from opening up till they are financially ready to do it themselves.

"It is a case of more than 30 times faster speed," says Kapil Dev Kumar, chief operating officer of Gurgaon-based Smartdigivision. Typically, 3G can offer up to 10 megabits per seconds of download speeds while mobile WiMax offers 300 mbps, besides better voice clarity.

But in linking GSM's 3G auctions to broadband wireless (where mobile WiMax is the only technology available), and delaying both, the babus in the telecom ministry and some of India's biggest mobile companies have ensured that they can delay the launch of WiMax to as close to LTE's commercial launch as possible.

Otherwise, other than the fact that they are both high-speed internet technologies, there is little similarity between the two. 3G will roll out on 800 Mhz, 450 Mhz, 1900MHz and 2.1 giga hertz spectrum, while WiMax will be on 2.3 GHz and 2.5 GHz spectrum. 3G will be largely on mobile and will be used in desktops and laptops too via data cards. WiMax, on the other hand, is largely for laptops and desktops while WiMax handsets for mobile services are still not commercially available.

One argument that has been used to link 3G to broadband wireless has been that broadband wireless is being offered at a very low licence fee. Cellular Operators Association of India wants a spectrum fee for mobile WiMax on a par with 3G.

But WiMax supporters argue that 3G will get 5+5 MHz of spectrum (enough for 3G services) while broadband wireless requires a minimum of 20 MHz. So while 5+5 MHz of 3G spectrum is priced at Rs 2,020 crore, 20 MHz of BWA spectrum is priced similarly at Rs 1,010 crore.

However, sources in the Telecom Regulatory Authority of India and Department of Telecommunications say eager equipment manufacturers such as Ericsson, Huawei and ZTE have begun lobbying for LTE. "They are trying to convince us — similar to what they did in 1995 — that 4G (LTE) is the future, not WiMax," says a senior Wireless Planning Commission member. Interestingly, Sweden's Ericsson is a known WiMax basher. It has positioned itself in India to capture a major share in 2.3 and 2.5 gigahertz bands — bands that are meant for broadband wireless. "It is a ploy to corner spectrum allotted for WiMax and also to delay the auction," says a senior WiMax Forum executive, who requested anonymity. Clearly, there's more to 3G-broadband wireless deferment than meets the eye.

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Insuring for cover

When there is a crisis of confidence with looming financial instability, one needs to stop and seriously re-assess what insurance cover means for a safe future

YOU HAVE HEARD ENOUGH ABOUT WHY YOU should buy insurance. But still, you pay little attention to what kind of insurance plan and the amount you will need for buying cover. And to top it, you have no clue from where to start and your buying decision solely rests on the advice of your financial planner (if you have one) or the agents who anyway have a different agenda to push a specific policy. With the ensuing liquidity crisis, people have ended missing out on their existing insurance premiums, whereas the fact remains that they should have continued paying given the uncertain times.

While it is important to look for insurance cover for one's assets like a house and a vehicle one owns, there cannot be any denying the fact that risks life carries is much more, and hence needs proper attention. This could be death, hospitalisation or physical impairment and always comes as an unplanned expense affecting the financial well-being of any person. To tide over such vagaries one needs to seriously look for life insurance, health insurance and personal accident covers.

So how do you estimate the value of your cover? It can be safely arrived at by analysing your expense profile and the current wealth level of your and your dependants. Equally important is the selection of the premium paying term - for example, how long do you want to pay your insurance premium, which will be based on how many years of regular income you expect, level of your regular savings, how much insurance premium you can firmly commit to and how long you want to be insured versus how long you expect to pay a premium. Last and most important, is the decision if you at all, want to participate in the bonus/profit share of these plans. Based on what the primary objective is - risk cover or investment returns, one needs to therefore, look at all kinds of covers suiting your risk profile.

LIFE INSURANCE PLANS: Talk to any financial expert and the first thing he will tell you is that you should never buy insurance just for investments or for just as a tax saving instrument. The best is to buy insurance to insure and also give your dependents financial freedom and security. And this cannot be true than in these trying times. But how much life insurance you need depends primarily on the number of dependants you have, and the amount of liability, such as loans, that one carries. It would also depend on estimating how long your dependants would take to start fending for themselves. After arriving at the figure, one needs to look for a policy that gives the required cover at the cheapest possible price. The market offers several plans, ranging from a pure term to investment plans, such as a traditional endowment plan and unit-linked insurance plans or ULIPs. The best and sensible act is to opt for a term plan, as it works out to be the cheapest and simplest. You just pay for the cover and the policy pays in the event of death.

PENSION PLANS: While insuring life, a key component of securing your later-life is planning for your retirement years. The earlier you do, the better it is, so that you get the advantage of investments that multiply quickly each year, giving you the

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added advantage of the power of compounding. To arrive at an ideal retirement plan, the first thing is to decide how much income you require to live comfortably in your post-retirement years. Remember to take into account aspects like increased medical costs, vacations and gifts for family, while reducing costs like children's education and rent, if you own your home. Then determine how much you need to save regularly, starting now. There upon select the right retirement plan that enables you to meet your post-retirement requirements. You must preferably invest in market-linked plans, which can provide you with potentially higher returns in the long run, though some may argue this is not the right time to do so. If you feel so, you can seek ones which are balanced funds and help average out any discrepancy that may emerge from the equity roller coaster effect. A systematic investment of a fixed amount every month helps you to gain the power of compounding your value in the coming days.

HEALTH INSURANCE: A standard health insurance policy that takes care of your hospitalisation expenses is a must-have. If you have health insurance from your employer, you might not have to worry. Group insurance policies insure risks that individual policies don't, since they have the option of tailor-made policies with the insurer. Other health policies, which have defined benefits such as critical illness and hospital cash benefit, should be bought as top-ups.

PERSONAL ACCIDENT COVER: This offers you financial compensation against accidents, which might leave one permanently crippled at the maximum. Typically, such policies offer cover against death, permanent disability, permanent partial disability and temporary total disability. This cover is available with non-life insurers and comes bundled with health insurance too. It can also be opted for as a rider while buying a term plan. However, the riders do not always cover terrorism.

MYRIAD OPTIONS: Today, the market has many players besides the state-run life insurance companies, the notable being Max New York Life which has emerged as a well respected and the first life insurance company to have ISO 9001:2000 certification. With over 21 lakh life insurance policies and an assured sum of Rs. 62,000 crore in its kitty, it is well positioned to offer one of the best life, pension and health insurance products in the country. Max New York Life Smart Invest Pension Plan for example, offers a choice of five attractive investment funds and allows you to hedge against inflation through its increasing premium option. Then there is the Easy Life Retirement Plan as well as the Endowment Plan till the age of 60.

The recently launched LIC endowment plan called Jeevan Astha offers a single premium opportunity with tax deductions. It also offers a tax free maturity benefit and aims to attract those who want a fixed return on their investment. Then you have other players like Aviva Life Insurance, Metlife, IFFCO-TOKIO, Apollo DKV Insurance, Tata AIG which have a host of life and non-life products to choose from.

THE ROAD AHEAD: What if you are faced with a cash crunch? There are unit-linked policies in the market with a partial surrender option. Others offer a premium holiday. With these, one can easily decide to take a break, depending on one's financial position and choose to make up for the premia later, when you are financially better off.

Loan against policy is another option, wherein you can take a loan of up to 90 per cent of the surrender value against your policy. The Indian Banks' Association says, you can take a loan from any bank after your policy has acquired a surrender value. So, if you were seriously thinking of surrendering your insurance policy, think again before you do so!

UNDERSTANDING INSURANCE

It is important to understand how much life insurance you need, which can be safely arrived at by analysing the expense profile and the current wealth level of your and your dependants/family. Some key indicators one must run through to estimate the level of insurance are:

- Family's monthly expense profile: Inflationary (Rs. per month); Non-inflationary (Rs. per month)
- Of the above, your personal expenses account for? (Rs. per month)
- Monthly income of the other members of your family (Rs. per month)
- What is the current value of your family's savings and investments? (Rs. per month)
- Your family's other monthly income excluding investment income (Rs. per month)
- What is the risk tolerance level of your family? (Rs. per month): Low, Moderate, High, Extremely High
- Your family's average tax rate for investment returns
- Estimate the annual inflation rate over the next 10 years

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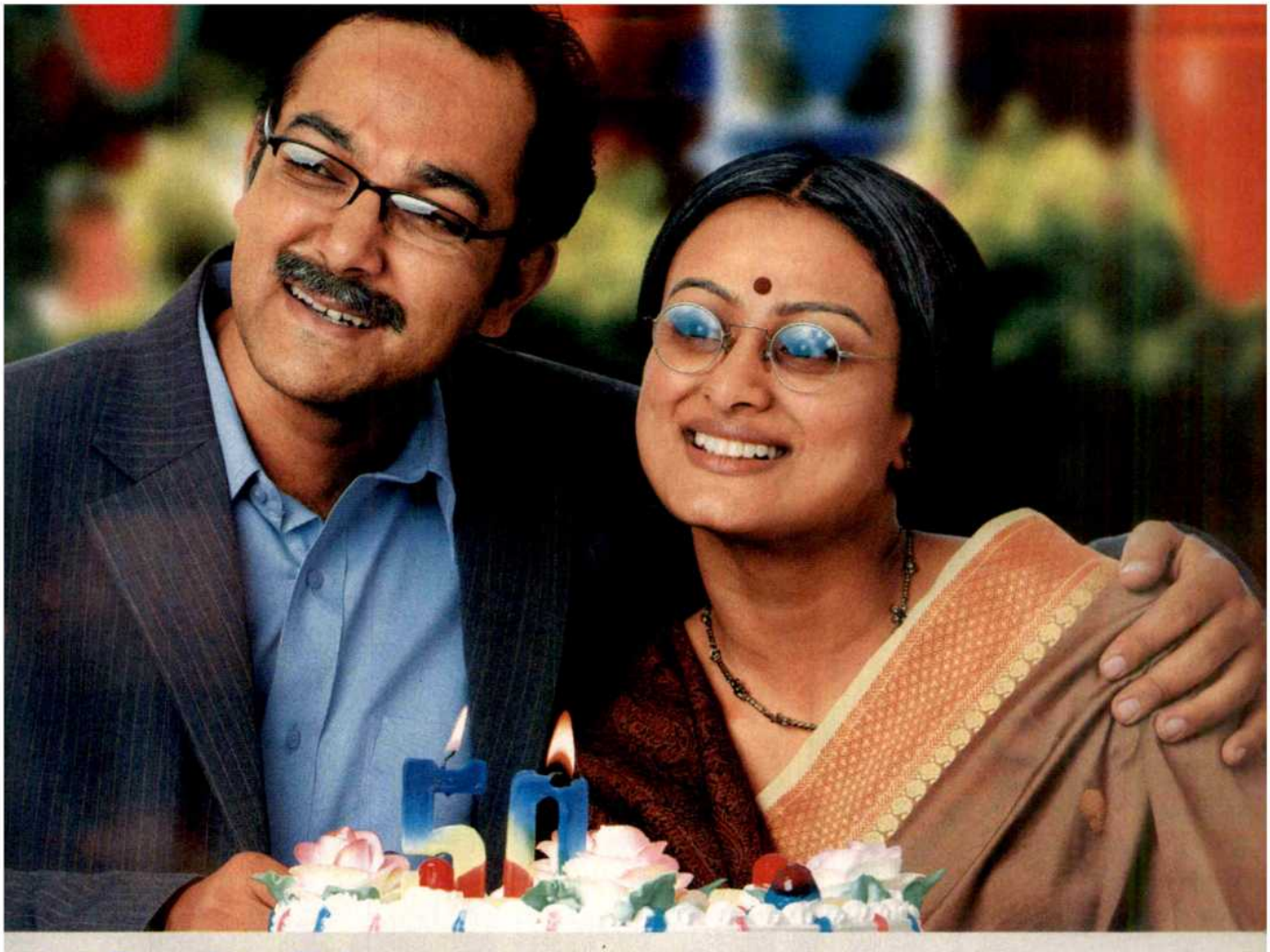

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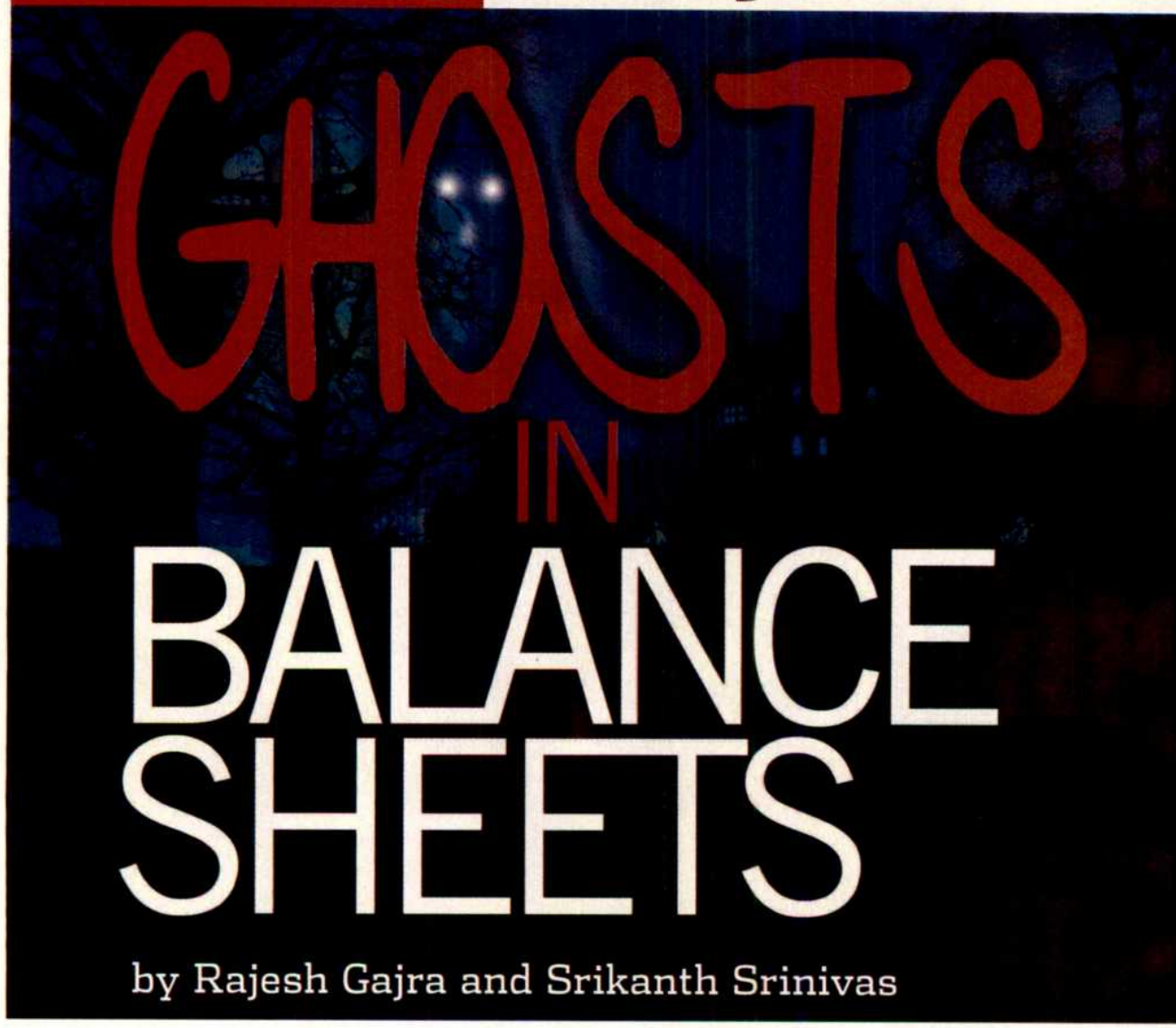


GHOSTS IN BALANCE SHEETS

by Rajesh Gajra and Srikanth Srinivas

EXECUTIVE SUMMARY

- Regulators such as ICAI are asking government for more powers and resources to analyse financial statements of companies
- Post-Satyam, it is important for investors to keep asking questions, and get satisfactory replies that explain discrepancies

BRAMALINGA Raju, erstwhile chief executive at Satyam Computers, did more than open a can of worms when he confessed to fraudulent accounting over several years in his company. He raised a stink. And now, the government, the accounting profession, the Securities and Exchange Board of India (Sebi) and the Serious Fraud Investigation Office (SFIO) are all wading into the morass.

But is Satyam the only case? Granted, there haven't been egregious cases like this one — it's already been dubbed the Enron of India — but investors are wondering whether their own companies have been completely squeaky clean when it comes to presenting a true and fair picture of their finances.

Academics, regulators and analysts call this creative accounting. Simply defined, creative accounting is the transformation of financial accounting figures from what they actually are to what those who prepare them want, by taking advantage of existing rules or by ignoring some or all of them.

There is another name for such an approach: earnings management. Managers can choose from a set of accounting policies — the Generally Accepted Accounting Principles, or GAAP — in a way that maximises the market value of the firm. At its extreme, earnings management can be the active manipulation to create earnings that would not have been possible in the absence of such manipulation.

As former chairman of the US Securities and Exchange Commission (SEC) Arthur Levitt put it in a speech titled — appropriately enough — "The Numbers Game", to the New York Society of Law and Business in 1998 "...earnings management has swelled in a market that is unforgiving of companies that miss their estimates".

With Satyam, though, regulators are consid-

Published financial accounts of companies can be gently cooked or even roasted

ering a hard line on transparency. "We are asking the government to give us regulatory power after which we will put in more money and resources to analyse annual financial statements of all companies after they are reported to exchanges or the Registrar of Companies," says Ved Jain, president of the Institute of Chartered Accountants of India (ICAI), the auditing profession's self-regulatory body.

Caveat Emptor: Let The Investor Beware!

So what does the investor do? Jamil Khatri, head of accounting advisory services at KPMG India, the global consulting firm, urges investors to read the auditor's report in companies' annual report very carefully and see whether any qualification exists that pertains to the figures in the balance sheet and profit and loss (P&L) account, along with changes to accounting policies.

He cites a couple of instances. "Investors should be wary about any amount that is directly adjusted against the reserves of a company," he says. "For instance, the redemption premium on debentures is charged to the reserves instead of P&L and though this is allowed by the Companies Act, it is not considered as a good practice internationally."

Analysts at Clear Capital — a part of the UK-based Noble Group — developed a set of accounting screens that they used in a report in September 2008 to assess possible uses of creative accounting. At *BW*, we decided to apply those five screens (see 'Tested Formulae') to a range of listed companies — the BSE 500, an index of the 500 largest companies by market capitalisation of the Bombay Stock Exchange — to see what they showed.

Booking revenues in advance of their actual receipt is indicated from cash flow analysis. Take the case of Torrent Power, whose figures for FY2007 and FY2008 revealed rise in earnings before interest, tax, depreciation and amortisation (EBITDA) of 170 per cent from Rs 216 crore (FY07) to Rs 584 crore (FY08) whereas its cash flow generated from operations (CFO) has grown only by 22 per cent from Rs 438 crore to Rs 533 crore.

"Cash flow figures were arrived at after giving effect for increase or decrease in the assets and liabilities, which do not affect EBIDTA and hence should not be taken into consideration for comparing growth of profit with growth of cash flow," says Rajiv Shah, company secretary of Torrent Power. Shah points to his company's cash flow from operations before working capital changes charges, at Rs 210 crore for the year

TESTED FORMULAE

The five metrics that we used to run our check:

BOOKING REVENUES IN ADVANCE: Are a company's Cash Flows from Operations (CFO) growing as fast as its Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA)? The formula: Calculate the percentage rise in CFO and EBITDA from one financial year (FY) to next. Compare the two to see by how much percentage is EBIDTA outgrowing CFO. The higher this result the more the chance of the company booking revenues without corresponding cash flows.

SHORING UP OPERATING REVENUES: This metric asks, "Is a company's 'other income' growing more or less in line with its investment assets?" The formula to apply is: Calculate the proportion of Other Income (OI) to Cash Investments (CI) for a FY. Do the same for previous FY. Compare the two to see whether the former has fallen drastically compared to the latter. The higher the fall the more the chance of a possible diversion of 'non-core' revenues to topline revenues.

DISBURSEMENT OF LOANS TO RELATED PARTIES: This metric directly looks at the quantum of a company's loans disbursed to related parties. As a general thumb rule, if more than 1 per cent of loans or advances given out are to such related parties then there is a case to ask the question "Is cash being pulled out of the firm by the promoter?" The formula: look at Loans and Advances figure in the balance sheet. Get the loans to related parties figure from the notes to accounts in the annual report. Find the proportion of the latter to the former.

SHIFTING EXPENSES AWAY FROM THE CURRENT PERIOD: This metric asks "Has a company's ratio of depreciation to Gross Block of Assets changed significantly in a given FY from the previous one? If so, is the company using depreciation to 'manage' earnings?" Calculate the depreciation rate of a FY by dividing the Gross Block of Asset with the Depreciation Charged. Do the same for previous FY. Subtract the former with the latter. If the difference is negative and significant it raises a red flag to dig deeper.

MIS-MATCH BETWEEN QUARTERLY UN-AUDITED FIGURES AND ANNUAL AUDITED FIGURES: Do the audited annual FY Sales and Profit After Tax (PAT) reported to the stock exchanges tally with the quarterly sales and PAT reported earlier at the end of each quarter? Except for minor variations or variations due to demergers or other major corporate restructuring they should. Add Q1, Q2, Q3 and Q4 Sales and PAT figures for a given FY. Get the final audited figures for Sales and PAT. Compare the two.

2006-07 and Rs 587 crore for the year 2007-08; this, he says, matches with EBIDTA for the respective years.

In the case of Ingersoll-Rand (India), EBIDTA grew by 280 per cent from Rs 82 crore in FY07 to Rs 312 crore in FY08 but its CFO grew by a muted 13 per cent from Rs 68 crore to Rs 77 crore. *BW*'s email to the company at the address mentioned on its website evinced no response at the time of going to press.

Investment income can be disguised as sales revenue. From FY07 to FY08, investments of Shree Renuka Sugars grew 34 times from Rs 0.5 crore to Rs 17 crore, but other income grew only five times from Rs 3 crore to Rs 15 crore. "Investments were made in the other group companies such as KBK Chem-Engineering; we cannot expect the returns to be commensurate as it was strategic in nature," says Gautam Watve, head of strategy and investor relations at the company.

Divi's Laboratories had an even better explanation for the differences on its books. Its investments rose by over 100 times from Rs 0.5 crore in FY07 to Rs 56 crore in FY08 but other income only doubled from Rs 3 crore to Rs 6 crore. "The company has reduced working capital loans, which is possible when you repay or prepay such loans from cash flows, and so the secured loans has reduced from Rs 150.80 crore in FY07 to Rs 52.96 crore in FY08," says Kishore Babu, chief financial officer at Divi's.

Companies will have to defend themselves against any suspicion of creative accounting in their financial statements. And it is important for investors to keep asking questions, and get satisfactory replies that explain discrepancies.

Companies also disburse loans to related parties, including whole-time directors, for example. Foreign institutional investors (FIIs) are averse to such practices of giving loans to other companies or individuals that are connected with the promoters. They see it as cash leaving for a dubious purpose.

We calculated the percentage of loans to related parties to total loans and advances for FY08, looking for those that exceeded 2 per cent. We found two: Gitanjali Gems, at over 4 per cent, and Welspun Gujarat Stahl Rohren (WGSR), where the number was 3.9 per cent. The public relations firm for the former had not responded to our email at the time of going to press. WGSR did; a spokesperson for the company says, "For a company (WGSR) which had a turnover of Rs 4,000 crore, Rs 30 lakh is an insignificant amount. Second, the purpose of this amount was that WGSR was using the premises of another Group company. The amount is paid as a deposit which will be reimbursed on WGSR vacating the premises."

Shifting expenses away from the current period needs to be watched too; for example changes in depreciation policy. In IL&FS Investsmart, on a gross asset block of Rs 2 crore in FY07 the depreciation charged was Rs 2 crore: 100 per cent! In FY08, its gross asset block was Rs 1 crore, but the depreciation charged for the year was Rs 0.2 crore or 20 per cent.

The amount here may perhaps be insignificant, and not enough to have any real effect on the P&L account. No response was forthcoming from HSBC that recently acquired IL&FS Investsmart.

The gross asset block sometimes includes land purchases, which do not attract depreciation. Our screen threw up Info Edge (India) whose gross asset block went from Rs 21 crore in FY07 to Rs 54 crore in FY08 predominantly from land purchases of Rs 20.2 crore during FY08.

Depreciation increased marginally from Rs 5 crore in FY07 to Rs 6 crore in FY08. "We purchased a 1.25 acre plot of land in Noida to house our proposed office," says Sanjeev Bikhchandani, MD of Info Edge (India). "We currently operate out of six different rented buildings in Noida and we need to consolidate our operations into one building for operational reasons." In this case, the explanation is valid. But again, the question needs to be asked.

Mismatches between quarterly unaudited figures and annual audited figures are a common occurrence. Stock exchange listing agreements allow a 10 per cent deviation between unaudited quarterly figures and the final audited annual figures. But isn't 10 per cent too high? For small companies, perhaps not, but when the revenues run into thousands of crores, it does seem excessive. The same is true of profit after tax (PAT) or net profit.

THE MARKET FAVOURITES

When it comes to quarterly earnings, there are always the favourites that are watched with great anticipation; in some trading rooms, analysts say that bets are placed to see by how much these companies beat consensus expectations.

Before the dotcom bust in 2001 in the US, one such was California-based Cisco Systems.

For March 2001, Cisco reported an earnings per share of 18 cents. It marked the 13th straight quarter that Cisco had beaten consensus estimates: by exactly one cent each time. Yes, there is a possibility that this outcome is a function of chance, but it is an awfully small one. Another example with a similar history of beating market expectations was GE, running into several years.

The Indian market does not have a long enough history of quarterly earnings performance, but the names of two companies come to mind in this context: Reliance Industries Limited (RIL) and Infosys Technologies. The first has always managed to beat the previous quarter's numbers, and the second always beats its own guidance on earnings. The success of the first depends on a growing economy and the second chooses to be conservative.

Take the case of Prakash Industries: the PAT for the four quarters for FY08 added up to Rs 201.8 crore but the final annual PAT figure was lower by 1.5 per cent at Rs 198.7 crore. Manoj Agarwal, the company secretary, says, "The difference between the audited and unaudited quarterly figures is very nominal and much below the 10 per cent limit. In a company having operations of such magnitude as ours, such a difference is not significant."

Auditors note these differences, too, as Price Waterhouse did in the case of Lanco Infratech, qualifying the company's consolidated financial statements in May last year, pointing out that taking profit from a previous period into the next one, rather than adjusting the previous year's profits, was not consistent with international practice.

Flexible Accounting, Fiddled Profits

But why do companies undertake it in the first place? The most obvious reason is to maintain the value of the stock. It would not be an exaggeration to say that the need to meet Dalal Street's expectations is becoming a consuming pre-occupation of CEOs and boards.

Secondly, there are incentives for meeting expectations that could be part of senior management and CEO compensation. Thirdly, robust earnings ensure that credit ratings are high and borrowing costs low. Finally, if a company is planning a share issue, good earnings will ensure a good stock price for the stock being offered.

The role of auditors in the Satyam case has been in the headlines, too. Should accounting rules be so flexible as to allow creative accounting to flourish? "Economic conditions and financial transactions are not similar enough to warrant the use of identical accounting practices," says the head of a leading audit firm who wished to remain anonymous. "It can be true even of companies within the same industry."

From the accountant's perspective, the process consists of dealing with matters of judgement and resolving conflicts between competing approaches to the presentation of results of financial transactions and events. That is where the choice of accounting policies comes in, whether it is of inventory management or how software development costs are recognised.

Downplaying Performance

In a recession, one would think that companies would want to show better-than-peer performance. Not always. We are in a slowdown, so performance is expected to be bad, and earnings expectations are not likely to be met. So there won't be additional penalties for making it even worse.

CLEAN RECORDS, PRIMA FACIE

Noble Group's analysts have picked five companies for *BW* across five sectors as being among those companies with better average scores with regard to the five accounting metrics. They are based on FY08 financials.

	Sector	Average score out of 500	Current market cap. (Rs crore) *
Dabur Pharma	HEALTHCARE	469	600
Britannia Industries	CONSUMER & RETAIL	460	3,081
HCL Technologies	TECHNOLOGY	454	7,881
State Bank of India	BANKING	452	73,995
Hero Honda Motors	AUTO	452	16,793
BSE-500 Index companies' average	—	400	—

Note: Higher the score cleaner the company with regard to the five accounting metrics
*As on 16 January 2009; Source: Clear Capital's (Noble Group's subsidiary) rankings based on FY08 financials

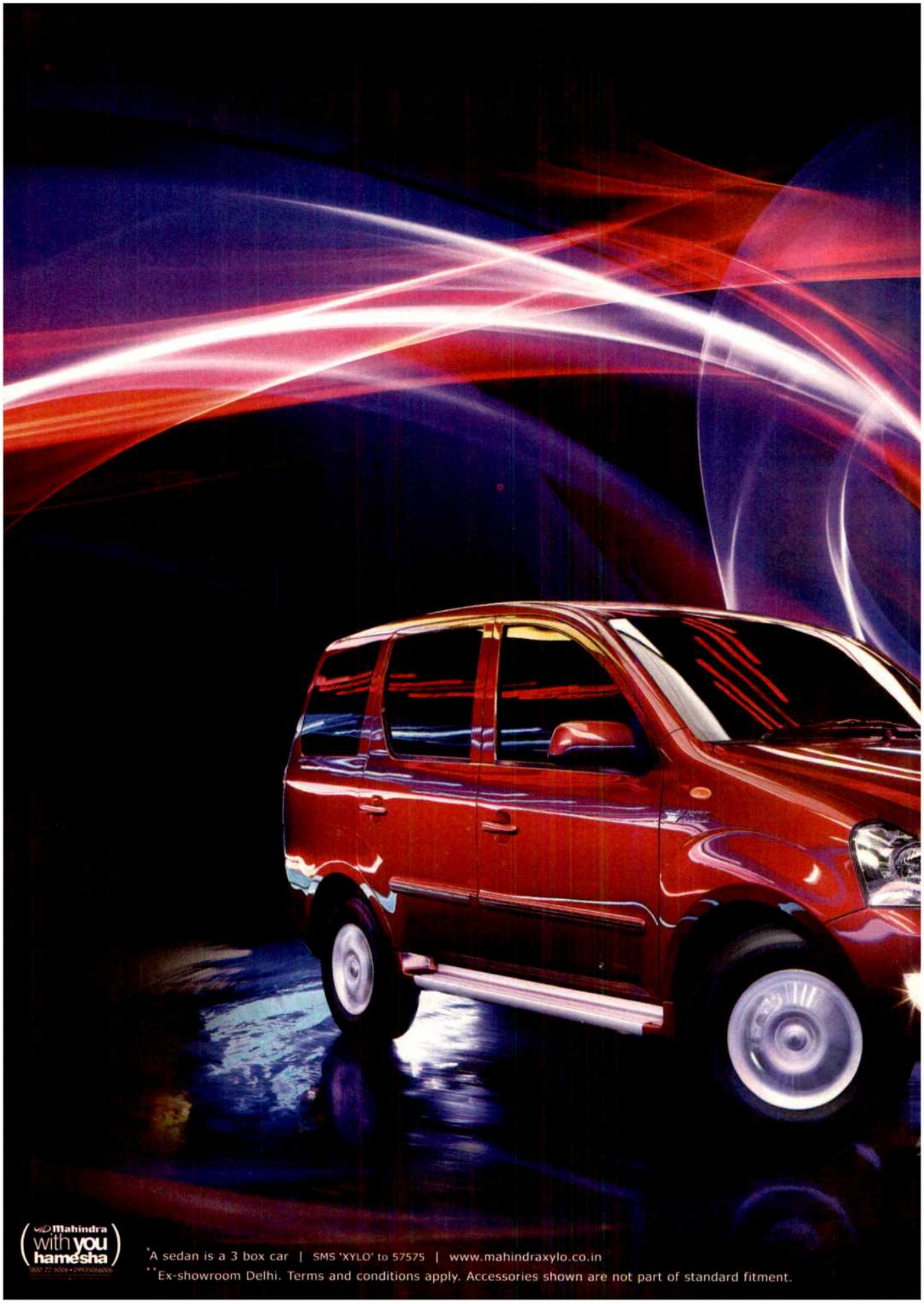
"Many companies could write down assets and clean up the balance sheet," says the head of a leading investment banking firm in Mumbai. "Taking a big bath means fewer charges in future years, and sets the stage for higher earnings in the coming years." Is that creative accounting?

Others could take a hit during acquisitions: a restructuring charge on profits, for example. Any company that took over Satyam's operations — there were television news reports that suggested that Larsen & Toubro might — would be able in theory to write off a substantial restructuring charge.

In the US, it's not unusual for large companies that dominate markets to underplay their financial results. Analysts in that country have long suspected Microsoft of playing down its earnings, largely because it does not want to attract accusations of monopoly power. As the largest and most dominant player in the software industry, it has been the target of many anti-trust (or monopoly) lawsuits and might want to avoid even greater scrutiny. Like the oil companies in the 1970s, reporting lower profits could actually be in Microsoft's interest.

Sebi, the ICAI and the government are presently focused intensely on resolving the Satyam fiasco. Sebi has suggested that it will ask for greater disclosures, and ICAI may even consider a peer review of large audits: an audit of an audit, if you will. But greater coordination and pooling of effort and resources may be necessary. Whether books are gently cooked or roasted, it's always investors who get burnt.

With inputs from Sreevalson Menon, Muthukumar K., Gauri Kamath and Vishal Krishna
rajesh.gajra@abp.in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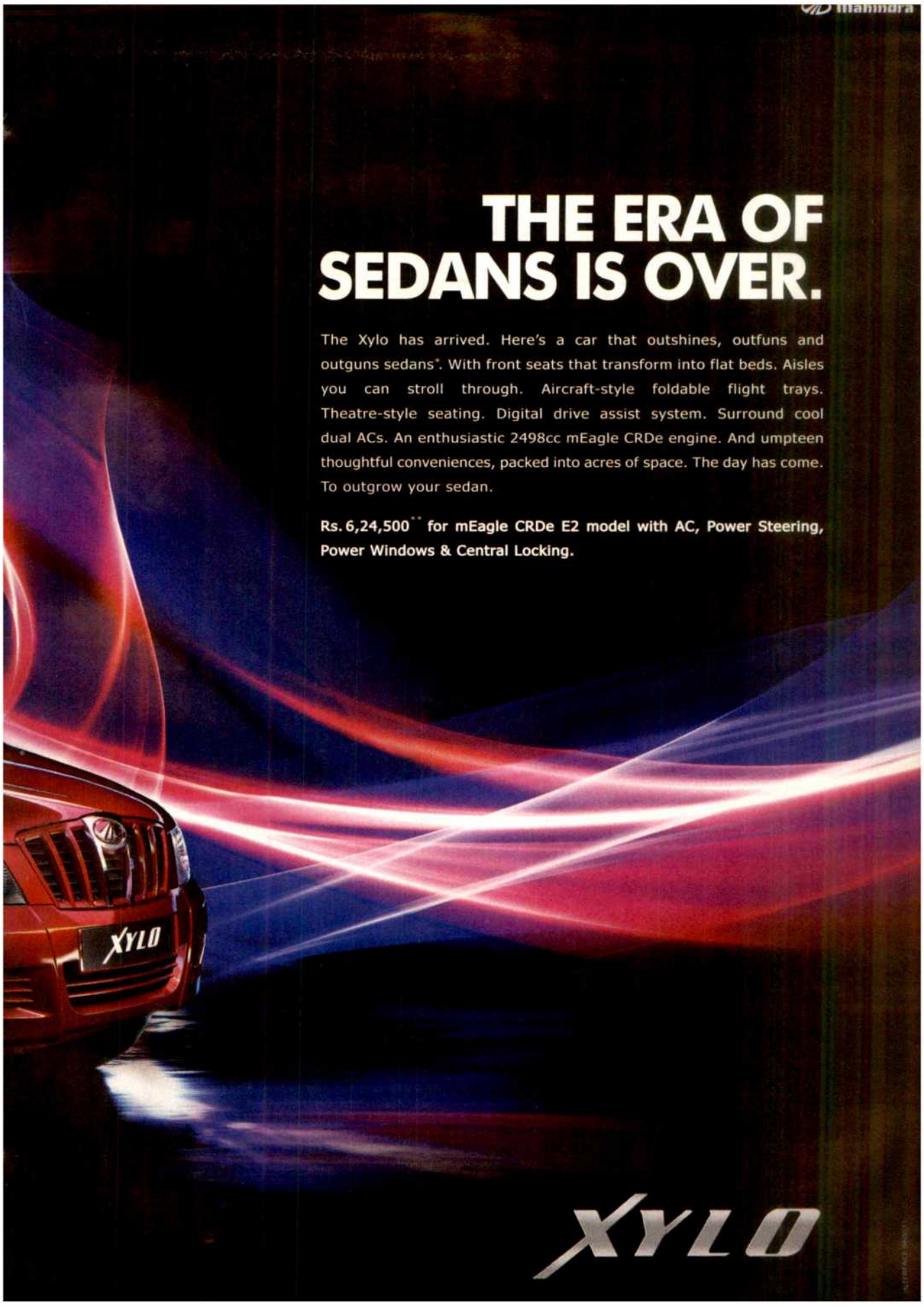
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The Path Less Travelled

by Saurabh Mukherjea

SATHEESH NAIR

AS EQUITY ANALYSTS WHO SPECIALISE IN advising global institutional investors, we began researching Indian stocks in September 2008 at the behest of clients who felt exposed by the lack of quality research in India. Our studies showed that creative accounting and promoter manipulation exist on a much larger scale than is generally believed. When this realisation dawned, we faced a tricky choice: to either tell clients about the extent to which this market was a minefield, successful navigation of which required forensic accounting analysis and promoter integrity checks, or to gloss over the problems while encouraging them to believe in the well-worn 'India story'. The former route was chosen, partly due to the scale of the abuses taking place and partly because the latter route already had numerous skilled practitioners.

When Satyam's ex-Chairman B. Ramalinga Raju went public with his mea culpa on 7 January, it was disappointing but not surprising. And then as clients examine and re-shuffle their portfolios in the wake of Satyam, a question arose, "Why is the stockmarket in this state of disarray?" The answer lies in a mixture of weak accounting rules, politically influenced regulation and weak independent directors:

Accounting: While the Indian Generally Accepted Accounting Principles by itself are no more or less flawed than the International Financial Reporting Standards, our market suffers because of how these rules are applied. There are two areas that give cause for concern. First, the lack of restrictions placed on auditors who do consulting work for the firms they audit. In several instances, there are listed companies where the consulting arm of the audit firm earn advisory fees for help with M&A, new entity structuring, tax minimisation, etc. Often such consultancy fees dwarf the audit fees, thereby creating a conflict of interest for the firm. In the West, following the Enron scandal, there are clear rules that limit how much consultancy work accounting firms can do for the firms they audit. We need such restrictions urgently.

Second, in contrast to other large capital markets, the Indian market makes it all too easy for annual reports to be published many months after the financial year has ended. Since quarterly reports are unaudited, do not contain a cash flow statement and a balance sheet, and do not provide consolidated numbers, the annual report is keenly awaited as it is the only document that gives a full picture of a company's financial health. Companies with weak cash flows delay annual reports for sometimes 6, even 12 months after the year end by which time the market's focus has moved on to the other things. In larger markets, the law says that the annual report has to emerge within four months following the year end. Our market needs better quarterly reporting and more timely annual reports at the year-end.

Market regulation: In other countries, the heads of the key regulatory bodies are appointed by the government, say, once in four-five years, but then the day-to-day functioning of the regulator is relatively free from political intervention. In India, financial regulation seems closely intertwined with politics and influenced by the day-to-day priorities of the Central government. The result is that much of the regulator's time seems to be taken up by market interventions aimed at appeasing political lobbyists. This dilutes the regulator's focus on cracking down on corporate malpractice and means that we operate in an environment where well-connected promoters have little to fear with respect to regulatory action.

Helping independent directors: Alongside auditors and regulators, independent directors are the third pillar that a modern capital market uses to safeguard investors. In India, however, promoters tend to exert enormous leverage on independent directors both through their social relationships (they are often part of the same family or social circle) and through their financial relationship (the promoter for all intents and purposes pays these directors). Hence, the chances of them blowing the whistle on the promoter are fairly remote. We need a regime where promoters are prohibited from interfering in the recruitment of independent directors and prevented from setting their pay and tenure.

In the months ahead, Indian regulators will face intense lobbying if they seek to push through even one of the three sets of reforms outlined. If they wilt in the face of this lobbying, FIIs are likely to vote with their feet even before other Satyams scar the Indian market.

We need stronger accounting rules, better market regulation and stronger independent directors

The author is head of Indian equities at Noble Group

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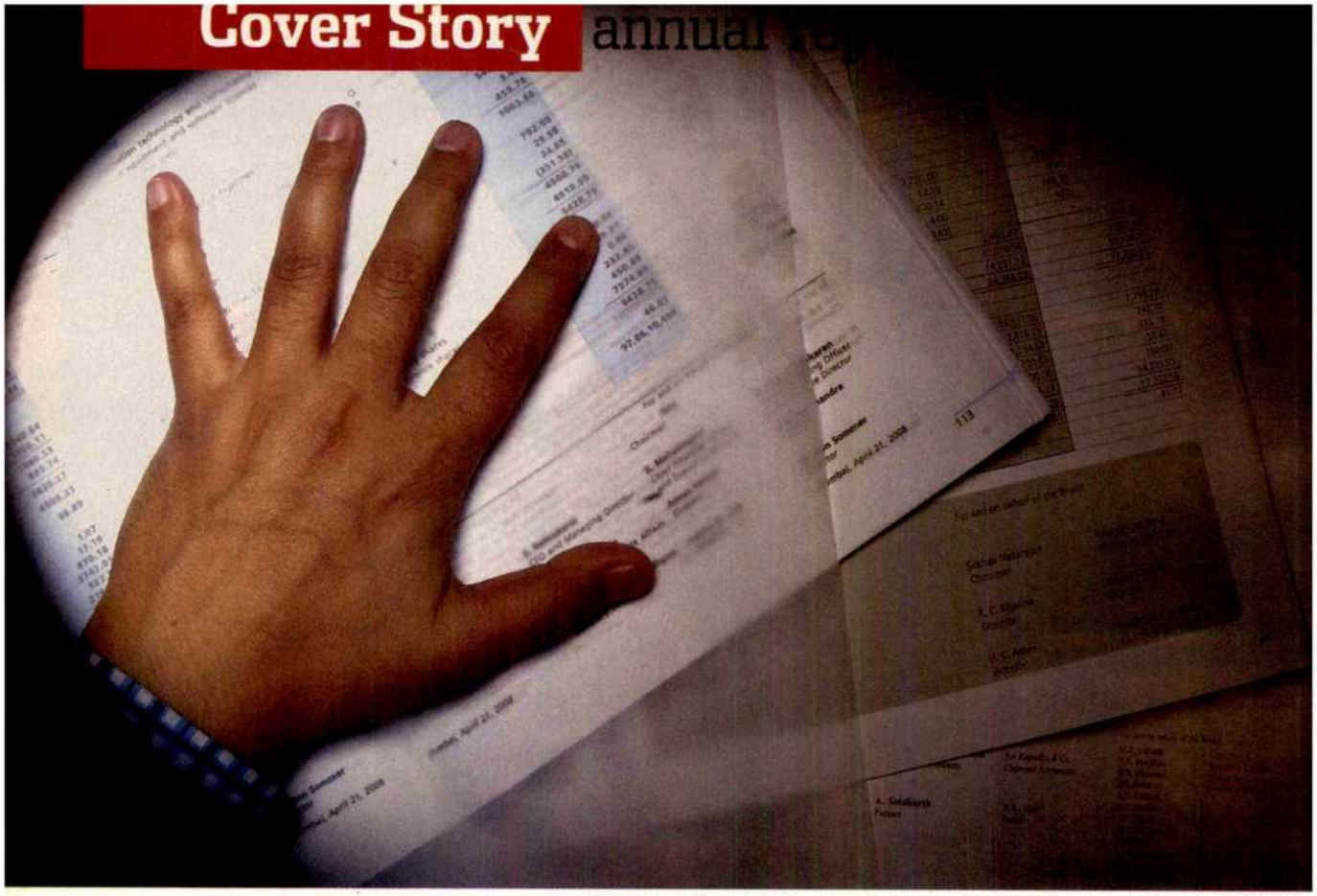

SANJAY SAKARIA

Hidden From View

by Rajeev Dubey

Exemptions have made balance sheets even more opaque

NO FULL TRUTH: Many companies have taken to sending abridged annual reports to their shareholders

LIFE IS FILIGREE WORK. WHAT IS WRITTEN CLEARLY IS not worth much, it's the transparency that counts. These words from French writer Louis-Ferdinand Celine sum up the state of India Inc.'s balance sheets. Far from being transparent, for decades, promoter-owned companies have declared as bare minimum information mandated by law to their shareholders as they could.

As businesses became more complex and expansive, companies sought to disclose even less, sometimes because they considered them vital proprietary statistics and sometimes because they found them administratively challenging. Over the years, the Ministry of Corporate Affairs and the Securities and Exchange Board of India (Sebi) have also allowed several exemptions that have made balance sheets more opaque.

As recently as April 2007, when shareholders were groping for more information, Sebi allowed listed companies to send abridged annual reports to their shareholders. Companies, particularly those that had millions of shareholders, had been pressurising the government to allow them to send only the salient features of the balance sheet, instead of the full report, to save on stationery and postage charges. Shareholders can ask companies for the full balance sheet (then the company has to mandatorily send it), but very few do that. Among the details that an abridged annual report does not contain are statements on internal audit, director's report and schedules of the balance sheet, none of which make the balance sheet bulky or cumbersome. "The abridged balance sheet is a useless document," says Jayanth R. Varma, professor of finance at IIM-Ahmedabad. "Giving an annual report without schedules is meaningless."

At the other extreme, Ghaziabad-based Dabur sends the full annual report to all shareholders, and also voluntarily sends them a half-yearly report. "We owe it to the shareholders to communicate the full picture," says Rajan Verma, Dabur's executive director for finance. "We believe that's good corporate governance."

The information gap is widened by the Ministry of Corporate Affairs' decision to exempt companies from adding balance sheets of subsidiaries to the parent's annual report.

These exemptions under Section 212 of the Companies Act — meant to be granted on a case-by-case basis only to holding companies and materially insignificant subsidiaries — are allowed routinely in corporate India. Almost every organisation, including India's largest Reliance Industries, Aditya Birla's Grasim Industries, and ADAG group's Reliance Infrastructure and Reliance Natural Resources have got such exemptions from the ministry.

Companies sought these exemptions once the government asked them to consolidate accounts of all subsidiaries with the parent company's. They argued that companies that have multiple subsidiaries (Delhi-based Unitech, for instance, had 316 subsidiaries as of 31 March 2006, nearly half of which were added in 2007-08 alone) would need to send voluminous reports to shareholders. The argument that subsidiary accounts should not be presented because it's mandatory to submit consolidated accounts itself is faulty because the consolidated accounts proforma has only a handful of parameters and not the entire balance sheet.

Besides, circumstances such as Satyam's and massive over-leveraging by several of India's largest realty companies have exposed a major loophole in this crucial exemption — the auditors of subsidiaries are different from the parent's auditors. This leaves room for the parent's management to manipulate financials or disclose information only partially. Nearly one-third of Unitech's assets are in subsidiaries that have not been audited by the company's chartered accountants Goel Garg & Co., according to the company's 2007-08 annual report.

But even so, there is a handful that doesn't seek this exemption. Maruti Suzuki is among the rarest that have several subsidiaries and yet continue to publish annual reports of all subsidiaries in the annual reports.

Three other exemptions are commonplace: disclosing "turnover, that is, the aggregate amount for which sales are effected by the company, giving the amount of sales in respect of each class of goods dealt with by the company, and indicating the quantities of such sales for each class separately"; opening and closing stocks of goods produced, giving break-up for each class of good and indicating their quantities; and, the value of the raw materials consumed, giving item-wise break-up and indicating the quantities. In this break-up, all important basic raw materials were to be shown separately.

India needs to re-examine the validity of these exemptions and also assess whether existing disclosures are transparent enough. One of these is quarterly results. In 1998, when the government mandated quarterly disclosure by companies, it was a significant leap towards transparency. However, the 30-odd items in the quarterly results are woefully inadequate. In times when overleveraging is a huge concern, quarterly results don't disclose a company's debt, which is a handicap for shareholders. "Today, people are more worried about their company's debt than its profits," says IIM-A's Varma.

India needs to move to a stage where quarterly disclosures can become monthly disclosures while quarterly results become as wholesome as annual reports. In the US, for instance, Form 10K (for annual disclosure) and Form 10Q (quarterly disclosure) are nearly identical on financial information, including the balance sheet, cash flows, notes to accounts as well as the income statement.

Besides, companies at the forefront of corporate governance can voluntarily make monthly disclosures — either in the form of e-mails or advertisements in mass media — in times of uncertainty to reassure shareholders. "When the perception is not right, companies have to come clean," says Satya Narayan Bansal, CEO of Barclays Securities India. Companies will oppose this as an administrative harassment, but in times when business integration software such as SAP are the norm, pulling out 30 items from the accounts monthly isn't difficult. Most companies present such information to their CEOs on a daily basis. Besides, monthly accounts need not be audited. Such disclosures are likely to endear companies to their investors who are constantly worried about the impact of the global recession on their company's performance.

Ironically, even as the din to bring greater transparency intensifies, companies that should proactively embrace transparency have consistently resisted it. In 2007, at the 10th anniversary of quarterly accounts disclosure, Assocham's eco pulse survey of corporate leaders revealed that 95 per cent of CEOs and MDs were against Sebi's quarterly disclosure guidelines. They wanted Sebi and the Company Law Department to amend the law so they disclose results only twice a year, as before. Almost 80 per cent of respondents said corporates should have come together to oppose quarterly results when they were made mandatory in 1998.

Interestingly, at that time, the Confederation of Indian Industry (CII) issued a statement criticising Sebi's directive, saying the move may compel companies to window dress their results. CII wanted Sebi to leave it to the discretion of companies, but that was not to be. After all, as Irish politician Gerry Adams said, one man's transparency could be another's humiliation.

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Ways For Transparency

1. Abridged annual reports must be disallowed; all shareholders must get full disclosure annual reports

2. Exemptions to companies from disclosing information in balance sheets must be disallowed

3. Quarterly results proforma has inadequate information; it should be similar to annual results details

4. All subsidiaries and the parent company should be audited by the same auditors for accountability

5. Changes in ownership must be disclosed instantly, rather than at the end of the quarter

No Silver Lining

by Sreevalsan Menon

Long-term contracts of companies could worsen the slowdown

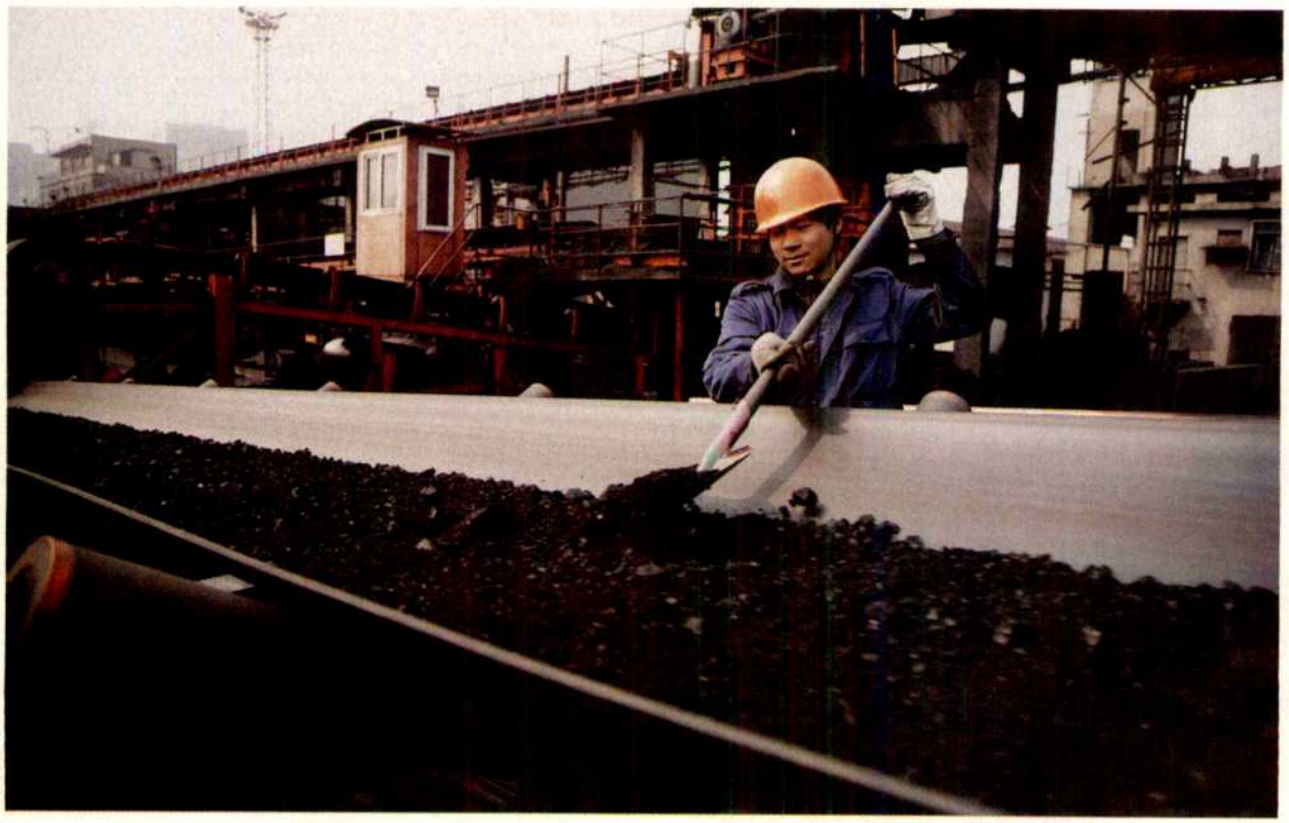
RAJASEKAR MURUGHASAN, MANAGING DIRECTOR of the Rs 450-crore Rajathi group, cannot wait for this financial year to end, when the majority of the long-term contracts (LCs) for his raw material supply will expire. Murughasan's commodity trading and manufacturing businesses have been hit ever since spot prices for many agriculture products and iron ore — which are essential supplies for his business — nosedived below his contracted contract prices mid-way through 2008-09, taking the profitability out of his business. He will breathe easier after 1 April, when he can renegotiate his contracts with suppliers.

Murughasan is not alone: large parts of corporate India's story — mainly manufacturing companies that depend heavily on commodities — will breathe a sigh of relief, too. While the going was good for companies in 2007 as pre-negotiated contracts insulated them from wild swings in spot commodity prices in early 2008, the deepening recession has forced large corrections in spot prices since July 2008, but denied any benefit to contract-bound companies.

"Though prices have fallen sharply, the impact will depend on the type of the commodity and if it's traded through contracts," says Goutam Chakraborty, a commodities analyst with ICICIdirect.com. Most agricultural commodities such as sugar and cotton are not purely dependant on contracts; they are seasonal and their prices depend heavily on production, availability, etc. Precious metals are not traded through long-term contracts either.

But commodities in which there are no active futures markets are traded though long-term contracts and buyers of these commodities may see better price conditions post March 2009, when most long-term contracts expire.

For suppliers, it's the other side of the coin: they will have to cut prices and their balance sheets will feel the brunt of recessionary conditions. Many new investment projects — including capacity expansions — may have to be put on hold. Production cuts are also likely to contain price declines. But there are some lucky ones too. K Srinivasan, deputy general manager for aviation division at Hindustan Petroleum Corporation, says aviation turbine fuel contracts



BAD TIMES: Iron ore contracts are being renegotiated at lower prices

BLOOMBERG

with airlines, ranging from 1-3 years, are concluded round the year as per the longevity of the deal with individual users. "ATF prices, unlike other commodities, are not linked to global markets, though crude prices act as an indicator to suppliers and buyers. Since ATF also falls outside other normal petroleum products, pricing restrictions are not there," he says.

But a bigger question looms: Would the lowering of contract prices result in deepening the recession as demand slackens? Buyers may get lower prices, and get some cushion, but overall lower demand could accelerate the downward spiral of economic growth. And who can say that it won't affect the value of other contracts including exchange-traded futures contracts?

Buy Now, Rather Than Pay Later

Readers will recall that in 2006 and 2007, spot prices of almost all the commodities were much higher than contract prices; that prompted the suppliers of those commodities to sharply hike contract prices. Rio Tinto and BHP, for example, hiked iron ore prices by more than 90 per cent for major steel producers. Other inputs such as coking coal prices contracts are still valid till March 2009, but iron ore and chrome ore contracts are being renegotiated at lower prices.

Most of the companies contacted by *BW* refused to divulge details of renegotiated contracts or their strategy, but general estimates against a spot price on the London Metals Exchange (LME) for most metals showed a significant decline in contract prices. The spot price for coking coal is around $200/tonne as against $300/tonne in many contracts. Iron ore trades at nearly 50 per cent below contracted price of $100-120/tonne. This was also true for steel, cement, FMCG products, non-ferrous metals and agriculture products.

"As a result of either rise or fall in commodity prices, there will be an immediate impact on input cost," says Amar Singh, head of commodities research at Angel Broking. That puts pressure on margins. Procurement of raw material will be a difficult decision, as continuously falling prices can also put pressure on top-line growth, ultimately affecting the bottom-line growth; just look for it in the third quarter of 2009.

Winners And Losers

Spot price of zinc has been averaging $1,520/tonne on the LME for a majority of the current fiscal; the contracts negotiated by big Indian steel companies are in the range of $2,800-$3,000/tonne. When the new contracts come into force, suppliers such as Hindustan Zinc may see a 24 per cent fall in revenues and a 36 per cent drop in profits for the next fiscal, say analysts.

COMPARATIVE STUDY

Spot price of commodities have gone down

Commodity	Contract price	Spot price
Coking coal	$300/tonne	$200/tonne
Iron ore	$100-120/tonne	$55-70/tonne
Chrome ore	Rs 16,000/tonne	Rs 3,500/tonne

* Coking coal contracts valit till March 2009
** Iron ore and chrome ore contracts expired or renegotiated source
Source: ICICIdirect.com

Sugata Gupta, CEO of Marico feels that copra, safflower and sunflower buyer such as his company may benefit from new contracrts as some estimates put growth in gross margins for the company at over 45 per cent in 2009-10. Compare that to last year, when copra prices had gone up by 30 per cent. Similarly, Godrej Consumer Products (GCPL) is likely to post better profits due to lowering global prices of palm oil.

Analysts say new contracts for palm oil for GCPL from end March 2009 would lead to an increase in earnings before interest, tax, depreciation and amortisation (EBITDA) margins to the tune of over 2 per cent for the next fiscal.

Against this emerging scenario, majority of Indian suppliers are doing their best to hold on to prices domestically. "There has been no desperation in selling and large scale traders are hoarding the stock assuming the prices might sustain," says Murughasan. "We are planning to adapt to spot purchases and price averaging method for our export shipments."

Hedging Your Bets

Hedging is one way that can neutralise the above concerns and help maintain a better bottom line. Buyers and sellers can set up trades to minimise potential losses from fluctuating prices in spot markets through these hedges in the futures market, says N.S. Ramaswamy, head of commodities at Ventura Commodities.

According to Ramaswamy, contracts, which lock in prices based on the bottom of the market, are not necessarily the lowest total cost option in the medium to long term. "Indexed pricing, on the other hand, can be much more predictable and fair, and therefore more conducive to long-term vendor relationships and cost savings," he says.

Another reason for using indexed pricing is related to the demand equation. Demand is slipping for most manufacturers, and locking in or buying forward requires a volume commitment. And with the need to keep inventories low, buying via an index may be a more prudent strategy.

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Rules For Reform

by bill emmott

AFTER EVERY ECONOMIC CRISIS — ACTUALLY, after every crisis of any sort — the same words ring out: "Never again." For the global crisis that began in mid-2007, but really only hit hard in September 2008, the main task of ensuring that the same thing will not happen again will be handed to financial regulators.

Or, at least, the task will first go to parliaments and governments who lay down the rules and principles that their national financial regulators are supposed to enforce. As always when parliaments get involved, there will be a great urge to grab headlines, to make political gestures and to over-regulate just for the sake of it. "What should they do?" is the question all such parliaments and governments are now asking themselves. Yet there is a prior question that must be asked, "What, really, can they hope to achieve?"

That question is not intended as a counsel of despair. Regulations can never be perfect; regulators, being human, are far from perfect. But both rules and people to enforce them are necessary in many instances. Even free trade, that most liberal of objectives, in fact is only possible once a set of rules has been agreed upon. The World Trade Organization (WTO) is the guardian of those rules.

Regulatory reformers need to come up with a set of rules that apply to everyone and everything in finance

The example of the WTO leads to the idea that if global trade needs global rules and a global rule-setting body, surely global finance must need the same. Since the current crisis is the result of global capital flows, with a process of securitisation and the creation of complex instruments that reached all around the world, a logical solution to the problems we now face might well be the creation of a World Finance Organisation.

Logical it might be; practical it is not. A new report on reforming financial regulation has come out this month from the Group of Thirty (G30), an eminent group of former central bankers and finance ministers from all over the world that is chaired by Paul Volcker, the most eminent (and tall) former central banker alive. Although it is led from the US, this is not simply an American group: among the members, for example, is Montek Singh Ahluwalia, deputy chairman of India's Planning Commission. Reading the report, I wondered whether the idea of a global financial regulator might be addressed. But it is not.

The reason why a global regulator cannot happen is two-fold. One, the most practical of reasons, is that financial regulation is a question of highly detailed, day-by-day, month-by-month scrutiny and inspection of financial institutions. It needs staff to get close to the financial firms, and to be able to visit them physically on a regular basis. So a global regulator would need to have a worldwide army of inspectors and scrutineers.

It could only work if the global body were just an overseer while the detailed work was done by national agencies. That brings in the second practical obstacle: that governments are unwilling to cede their control over institutions that they consider to be like vital organs of their economic and social bodies. The best that can happen is that national bodies improve their co-ordination with one another, and try to make their basic rules consistent with one another.

So back to that question: What can regulatory reformers achieve, then? The G30 report is telling on this point. The gist of their recommendations is that the problem the US and others have now encountered is not with the financial rules themselves. It is with the fact that the existing rules did not prove capable of dealing with financial innovation, with new activities and institutions that fell outside the old rules; and that the rules were anyway poorly enforced. So if Volcker and his fellow eminences are right, then national regulators need to focus on the issue of whether their rules are adequate to deal with new financial products, or flexible enough to cope with them when they arise.

There has been a lot of debate in the US and Europe about who was to blame: the banks or regulators? Was this a case of excessive liberalisation which allowed financial firms to run amok? Or was it a case of financial regulators falling asleep?

The G30's answer, and which sounds plausible, is that both were to blame: the banks, for taking much bigger risks than was good for either them or for the economy; the regulators, for being complacent about the impact of financial innovation and for allowing it — or rather, its users — to circumvent the supposedly clear and internationally coordinated rules about disclosure, capital requirements and risk-taking. A set of rules that apply to everyone and everything in finance, even if it has not yet been invented: that is what regulatory reformers need to come up with.

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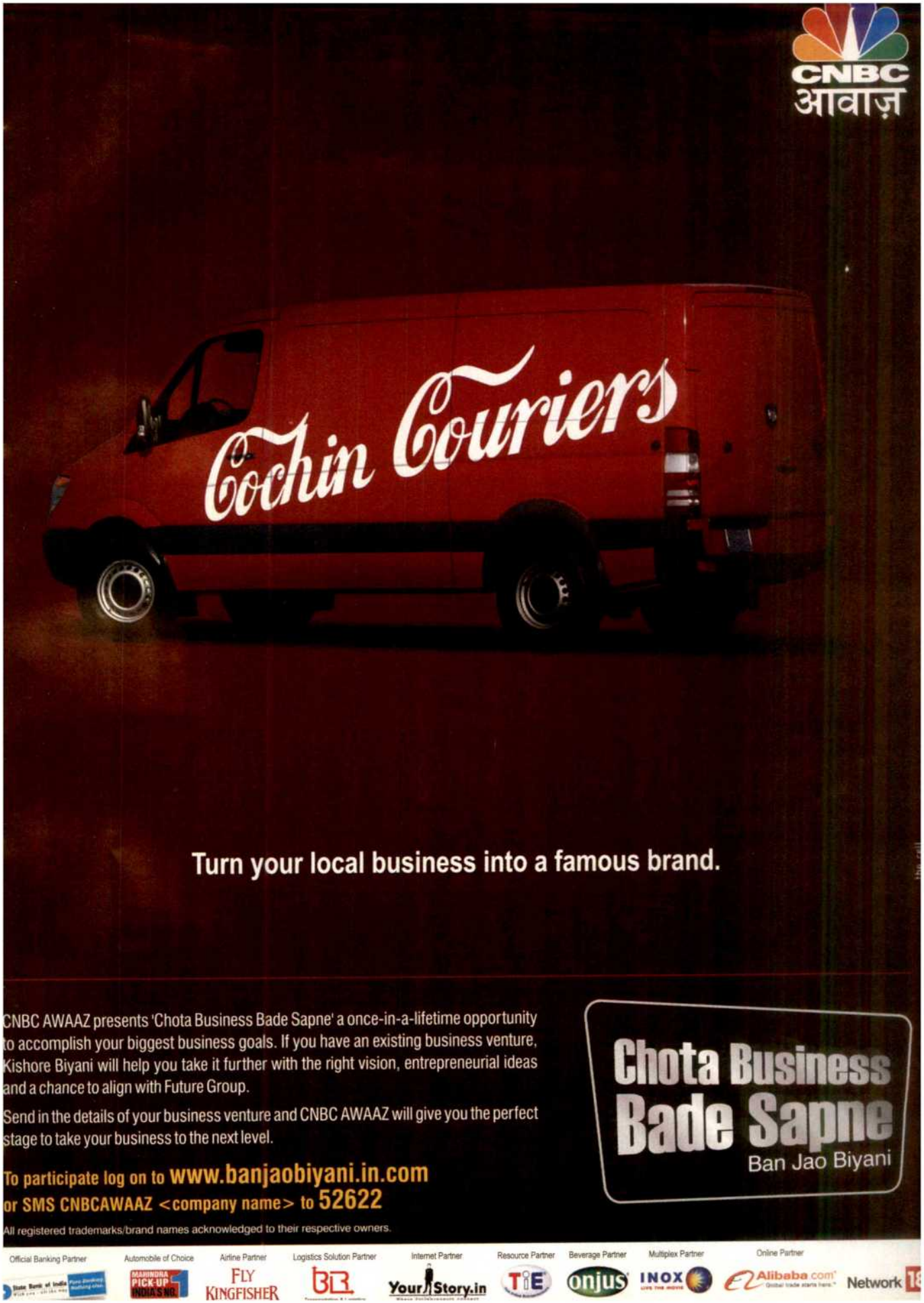
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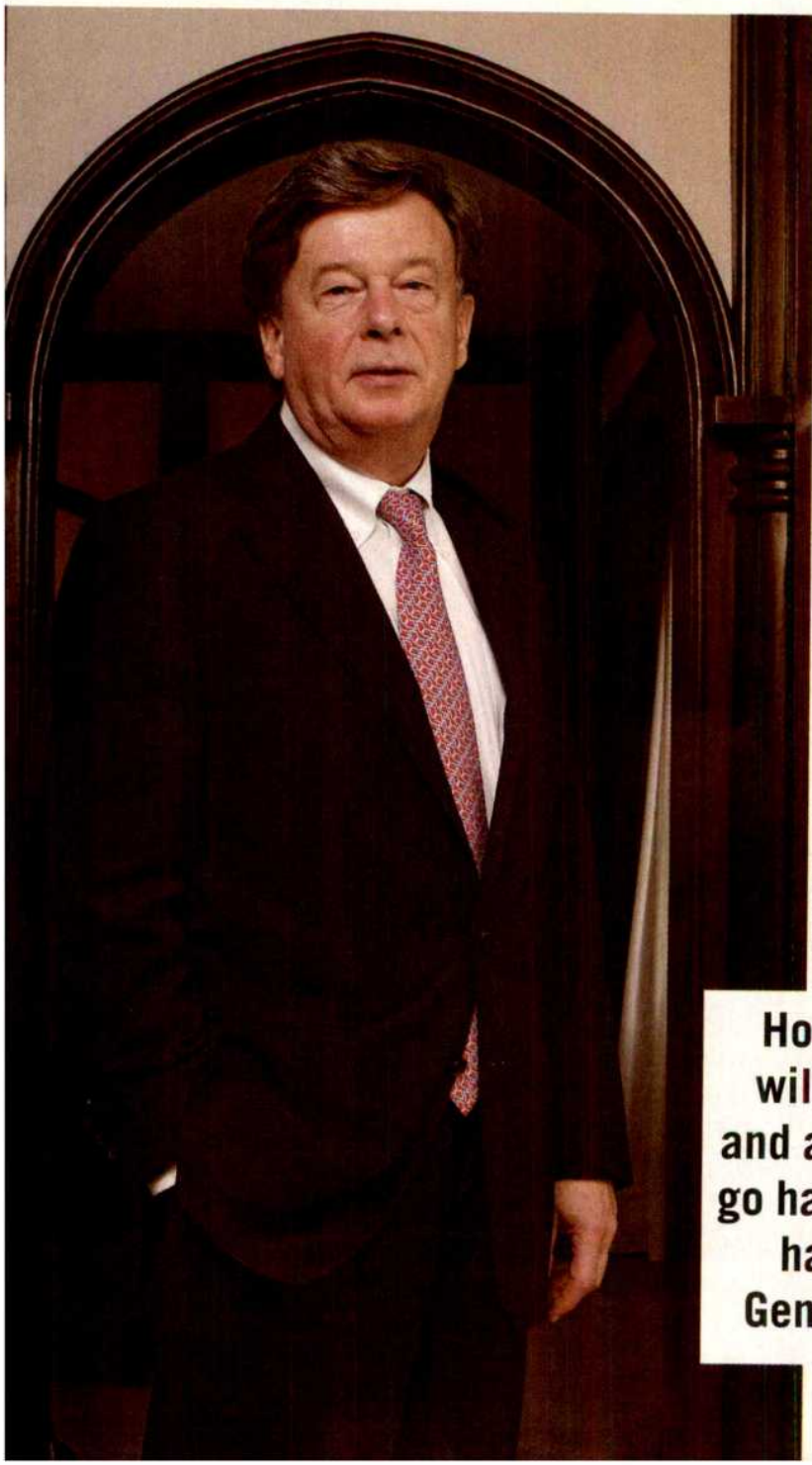
Keeping A Fine Balance

by Gauri Kamath



BIVASH BANERJEE

How long will profit and access go hand-in-hand for Genzyme?

ON A COOL NOVEMBER MORNING, WE ARE SEATED in Henri Termeer's suite at the Taj Palace Hotel in New Delhi. Termeer, 62, chairman, president and CEO of the $4-billion Cambridge, Massachusetts-based Genzyme Corporation, is scheduled to address the India Economic Summit on India's healthcare challenge. But that's not the only reason he is here. In 2007, US consultancy firm McKinsey predicted that India's pharmaceutical market will add $14 billion in sales between 2005 and 2015 to rank No. 10 globally at $20 billion. Genzyme, which set up shop in Gurgaon that year, is preparing to ride this wave.

India's potential as a market is at the top of his mind. "We are here to participate in the country's growth," says Termeer. No doubt, so is the challenge of treating Indian patients with its pricey medicines. One glaring instance — Genzyme's flagship product Cerezyme, a treatment for a rare and life-threatening genetic disorder known as Gaucher's Disease, costs on average $200,000 a year in the US, or roughly Rs 1 crore at today's exchange rate — what the CEO of a minor Indian enterprise might earn. It costs the same all over the world, and is taken for life.

"We have been challenged everywhere on the cost of the therapy," says the well-built Dutchman at the helm of the world's third-largest biotech firm. "The criticism is absolutely fine," he says. "It is part of being in this place, and I am not afraid of it." Termeer believes Genzyme has maintained a balance between profit and access to medicines. "If we say we cannot give you therapy because you cannot pay, we lose track of what this is all about. This is about patients."

Genzyme's policy is simple: either you pay full price, or it's free. In China, there are over 100 patients on free Cerezyme. About 50 children in India with rare genetic disorders get Genzyme drugs, including Cerezyme, for free. But as awareness and diagnosis rates of genetic disorders improve, in part thanks to Genzyme's market development, the numbers are sure to rise.

Over the next three years, Genzyme will seek to launch its entire portfolio here. On some drugs, it will hold patents. It will grow more visible in an environment that is charged up on the issue of drug pricing and access. How will it handle the challenge?

Niche Player

Genzyme has traditionally occupied a specialised niche where even top western drug makers are only recently seeing value — drugs for 'orphan' diseases or those that affect less than 200,000 people in the US. Gaucher's Disease, for in-

MAKING A MARK 'Differential pricing won't work for us'

Genzyme Chairman, President & CEO Henri Termeer spoke to *BW* in a recent interview. Excerpts:

Q: In which countries have governments stepped in to pay for patients whom Genzyme has treated free with its enzyme therapies?
A: It has worked in numerous places — in Russia, in smaller countries such as Croatia and Poland. Sometimes it has taken years, depending on the circumstances. The Chinese are very interested in our products, technologies and gene therapy. We will be making investments around innovation in China. But we are also making them aware that we are treating Chinese patients free of cost for 10 years. They know that it cannot go on forever because markets drive investments, and not charity unfortunately. Now it is a matter of building consistent support for these patients. I am very confident that it will work in China and India.

Q: What about differential pricing? Can it be made to work?
A: It would be probably difficult for these products. These are very expensive therapies, and very rare diseases. It is very difficult to arrive at differential pricing based on GNP (gross national product), because it never stops. It is simpler to say 'this is how we do it, help us with it'. We will treat the disease around the world, set up the registries and ways to follow the therapy and its success. I would say that there are many (healthcare) challenges in the world where this would be a good way to think about it. In HIV, for instance. There is a component where you can commercialise and one where you cannot. When you only serve one side, you lose importance because people look at both sides. The pharma industry have had a hard time on this. They have sometimes taken positions that were too narrow, too parochial and they lost global respect.

Q: In your home market, the price of Cerezyme has been questioned for a while.
A: In 15 years, we never increased the price. It's just recently that we had a small price increase for inflation. We invested the money in two ways, in the free-of-charge and in developing additional therapeutic options for three other diseases that had nothing. We have made large investments in those other disease areas. I see our responsibility as two-fold — the most important is to continue to innovate, find treatments for patients that cannot be treated, and therapy options. As soon as we lose the courage to do that, become very risk averse and want to do more incremental things, I think we have lost our reason to be. The second is if we have a discovery, say, in multiple sclerosis which is useful, (it turns) from opportunity to responsibility. We have to roll it out, and do whatever it takes. If we hesitate because we cannot find the resources, then again we lose our footing.

stance, affects less than 10,000 people globally. Drugs for a set of orphan diseases known as lysosomal storage disease (LSD), of which Gaucher's is one, have historically accounted for most of its revenues. In recent years, Genzyme has expanded into relatively more prevalent medical problems such as osteoarthritis, kidney transplant and cancer, and those products are gaining a greater share of revenue than before.

Genzyme's drugs often have no alternative or limited competition. "We believe in addressing unmet medical needs," says Sandeep Sahney, managing director of Genzyme in India and South Asia. "If our product does not offer a significant benefit over an existing set of therapies, we do not launch it." Genzyme's revenues have quadrupled from under a billion dollars in 2000 with a net profit of $940 million in 2007.

Indian generic companies have mostly stayed away from copying Genzyme's drugs. "They are not interested because the market is too small," says Ishwar Verma, senior consultant and head of the department of medical genetics at Delhi's Sir Ganga Ram Hospital. Also, their biotech skills are not as developed as their chemistry.

Genzyme's task is cut out for the three products that it has debuted in India with, for kidney transplant, osteoarthritis and thyroid cancer. Sahney calls them "conducive to a self-pay market" such as India, where individuals have to pay for their own healthcare and there is little health insurance. For instance, Thyrogen, a recombinant thyroid stimulating hormone, prevents hypothyroidism in thyroid cancer patients who have had their glands removed, and need to be off synthetic hormones in preparation for periodic body scans. It costs Rs 50,000 for a course of two shots. Price is not the biggest hurdle in the usage of such products, says Sahney. "It is changing the doctor's mindset," he says, explaining how until Thyrogen, doctors expected patients to live with hypothyroidism for weeks as a run up to their scans.

Creating a market that is able and willing to pay for products such as Cerezyme, a $1-billion brand, is a different ballgame.

THE PATIENT'S MAN: Genzyme's Chairman Henri Termeer says his company will seek to launch its entire portfolio of drugs in India over the next three years

Whose Responsibility?

At 5 ft and 7 inches, Sujoy (name changed on request) stands taller than many 16-year-olds. Studying to be an engineer, his dream is to fly planes. Sujoy has Gaucher's Disease Type 1. His body is missing a vital enzyme that breaks down a type of fat. At age six, his spleen had ballooned to several times its normal size and threatened to fatally rupture. His growth was stunted.

Then in 1999, Sujoy was put on Cerezyme, which his father imported from the US for free under a Genzyme access programme. He receives infusions once every two weeks. There are days when this cricket lover goes straight to play from the hospital. "Cerezyme has changed my life completely," says Sujoy during a recent interview at his home in suburban Mumbai.

In Bangalore, nine-and-a-half-year-old Nidhi, a patient of Pompe's Disease, a neuromascular disorder, is on free Myozyme since last April. From being on a ventilator 24 hours — she was unable to breathe on her own at one stage — she is now off it for 8-12 hours a day, says her father, Prasanna Kumar.

Neither Sujoy nor Nidhi's family could have afforded their therapy. "When I heard the price, it was beyond my wildest imagination," says Kumar, a telecom executive with a private firm. "But (Genzyme) told me they are committed to giving it free." Nowhere in the world do individuals pay out-of-pocket for drugs such as Cerezyme and Myozyme targeted at LSDs. Given LSD's low prevalence, Genzyme has to spread costs over a small group of patients, jacking up the price per head. It is insurers, governments and donors who fund treatment.

But in India, an estimated 80 per cent of all healthcare expenses is out-of-pocket. Sujoy's father, for instance, struggled to convince his employer — a Central government research organisation — to pay for part of his treatment, until he became acquainted with Genzyme's scheme. A month's treatment for Sujoy, he would be told, could fund more than one heart bypass surgery. He has yet to find an insurance policy that will secure his son's future treatment in case Genzyme cannot, he says.

Termeer is clear that while he is happy to continue providing free access to those who cannot pay, it is within a context — the government's willingness to step in at some point. "Ultimately, we need some help with this," he says. India is much bigger than some other markets such as Algeria, which in 2004 agreed to pay for Cerezyme. "The size could trip you up."

He has a point. Genzyme's efforts to improve diagnosis as part of its market development could contribute towards widening the patient pool that needs treatment. One reason why genetic disorders go undetected is because tests are expensive, and not easily accessible outside the metros, says M.L. Kulkarni, head of paediatrics at JJM Medical College in Davangere, Karnataka, who identified Nidhi's condition as Pompe's. Often, competencies are lacking or doctors don't diagnose as they think the treatment would be unaffordable to their patients.

Genzyme is partnering with government to scale up some labs, and to supply state-run hospitals reagents free of cost, and for a newborn screening project. It wants to sponsor genetics education. "Once the diagnostic capabilities improve in the country, the number of patients will go up," says Sahney. "Upto a point we can treat free, beyond that it will be sustainable only with active partnership with the government."

At the same time, there are supply constraints — biotech drugs are highly specialised and capacity cannot be added overnight. Even now, Genzyme rigorously evaluates each and every beneficiary of free treatment periodically using the help of a panel of Indian and foreign doctors. Only those whom the treatment is seen to continuously benefit are kept on.

Insurers and governments worldwide have raised many questions before paying for the drugs, and it may be no different in India for now. Gangaram's Verma says some patients in the Indian Army and public sector units have got a few years' worth of the medicine reimbursed by their employers. But generally, he says, the "government under-appreciates the problem".

Having made the commitment, Genzyme will be hard-pressed to curtail it without attracting criticism. Termeer no doubt knows what he is getting into. "The sharing of this responsibility is something we will be working on," he says. "But we are not putting the patient in the middle."

gauri.kamath@abp.in

BOOSTER DOSE

Genzyme's top drugs with 2007 revenues

Product	Indication	Revenue
Cerezyme	Gaucher's Disease	$1.13bn
Renagel	End-stage Renal Disease	$603mn
Fabrazyme	Fabry's Disease	$424mn
Synvisc	Osteoarthritis of the knee	$242mn

Source: Company

PRICEY AFFAIR: Genzyme's Gaucher's Disease treatment drug, Cerezyme, costs on average $200,000 a year in the US

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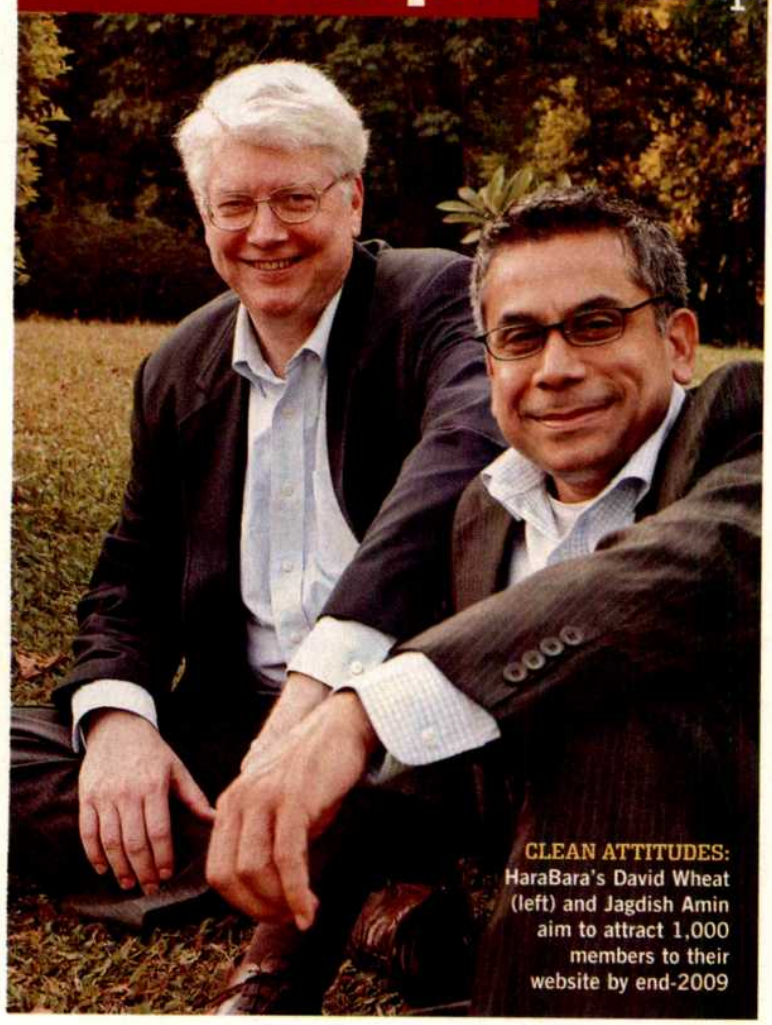

SUBHABRATA DAS

CLEAN ATTITUDES: HaraBara's David Wheat (left) and Jagdish Amin aim to attract 1,000 members to their website by end-2009

Nature's Companions

by Pierre Mario Fitter

HaraBara's founders hope to help firms world over go green

JAGDISH AMIN AND DAVID WHEAT ARE FROM different worlds. Amin, 46, an India-born entrepreneur, has spent much of his career globetrotting for multinational companies. Wheat, 60, a Harvard-educated biologist, spent his early career researching food products and biofuels for a Boston-based consulting firm before branching off on his own. On the surface, very little connects them, but for one thing — they are partners in a business that seeks to help companies go green. In October 2008, the duo launched HaraBara.com (the word means 'full of greenery' in Hindi), perhaps the world's first B2B 'green' website.

HaraBara has a simple premise: connect green technology manufacturers and consultants to each other over the internet. "Companies are at various stages of the game in the green space," says Wheat. "But whatever the stage is, there is a partner we can connect them with to take them ahead." The start-up is basing its business on grand projections of the size of the green market by consultants such as KPMG: a $3-trillion market by 2050. According to KPMG, green consultancies alone could rake in $60 billion a year by then.

So far, 18 companies have signed up or are in the process of doing so. And that's with a staff of two. Wheat hopes that by hiring more sales staff, HaraBara.com could bring in as many as 100 members a month beginning February 2009. Their goal is to hit 1,000 members, and rake in $1 million by the end of 2009.

The Right Time

HaraBara's primary objective is to unearth 'golden nuggets': companies that are doing great sustainable work, and getting them to talk about it. What might work for them, as Amin says, is that most companies want to 'evangalise' about green issues. HaraBara.com itself has been a beneficiary of people willing to share their green success stories. "We know that we don't have all the answers or technology to get our business going, so we are engaging with partners to help us," says Amin. For example, New York-based ThomasNet, an industrial database of 1.2 million global suppliers, has lent them its database of green manufacturing and services companies in return for some branding. Lexsite.com, a similar database for legal professionals, has done the same.

Arvind Sharma, associate director at KPMG in Mumbai, believes that the two entrepreneurs have struck it out at just the right time. "I feel the timing is right because green issues are taking a back seat in the recession," says Sharma, adding that although there are business-oriented websites that discuss broad topics such as social responsibility, he isn't aware of any that focus specifically on environmental or green tech issues. "It's nice to have people re-emphasise these ideas." Sharma feels that SMEs (small and medium enterprises), in particular, will benefit as they don't have any platform yet to discuss and share knowledge on such topics.

Prashant Shetty, one of HaraBara's angel investors and a long-time friend of Amin, agrees: "Although some companies still find the idea of green tech hazy, more and more will accept it when they learn of the benefits," says Shetty, who is not too worried at present about returns

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MEETING POINT: HaraBara.com connects green technology manufacturers and consultants to each other over the internet

on his investment.

HaraBara will give its members a three-month free trial period before it starts charging them a fee. KPMG's Sharma believes this is a good idea. "They should first work on establishing their credibility and building a wider member base," he says.

Getting that member base in place is priority number one for HaraBara, as its current members testify. "Real business doesn't happen yet due to a lack of critical mass of users," says Harit Soni, director of Bangalore-based green energy consultancy Ecolibrium Energy, who has registered his company on HaraBara.com.

Rabindra Srikantan, CEO of ASM, an IT services company in Bangalore, also believes that the website needs to add more members. Several of ASM's overseas clients have hinted that future contracts could depend on whether he can provide green IT services to them. He hopes that HaraBara's network will help him learn how to deliver these. "I've already been speaking to a couple of guys through this system but once more companies sign up, there'll be a lot more interaction," says Srikantan.

The Birth Of An Idea

For two people who are based in San Francisco, it might seem rather strange that they chose to launch a start-up website in India. Part of the reason for doing that is their hope that India's voluminous Web traffic will attract "hits in the millions". "Growth in membership numbers will determine the success of the platform," says Amin. The run-up to the launch is rather interesting, too.

It was in September 2007 that Wheat, who ran his consultancy GCF Associates from the same office as Amin did his business consultancy 37 Degrees, invited a German client to lunch at the office. (Till then, the two, despite sharing the same office, mostly kept to themselves. "We'd talk about global issues and problems, but we never guessed we'd work together," says Amin.) The client wanted to sell solar lanterns in rural India but wasn't able to develop a local distribution network. Although widely-travelled, Wheat had little experience in India, so he invited Amin over to "share some Chinese food".

The chance conversation helped the duo recognise they had something in common. "We realised that companies would find it useful to have a website that gave them access to customers and suppliers, and that helped them figure out local laws and regulations," says Wheat. Adds Amin: "Few companies had the buying power of, say, Wal-Mart, which could force thousands of its suppliers and distributors to turn green, merely by asking them to."

Their ideas remained on the whiteboard until last January, when a Boston-based venture-capitalist and friend of Amin — Tarun Gupta — came visiting. After studying the market potential and their business plan, Gupta promptly wrote a cheque to kickstart the business. Ironically, that cheque didn't even have a name on it because the business still didn't have a name. That came about after two months of intense soul-searching. Today, the two entrepreneurs are wrapping up their old ventures — GCF has been folded into HaraBara.com, while Amin is looking to sell 37 Degrees at an appropriate time — to concentrate full time on their new business.

Going ahead, says Amin, "We would be working on value additions to ensure more companies become part of the connect." Plans include adding networking events to the list of HaraBara's services as an additional revenue earner. The first event was even scheduled in Mumbai in late November but was cancelled because of the terrorist attacks, an event that took place just metres away from HaraBara's office in South Mumbai. They hope that the event will now take place in February.

Also, by 2010, the company hopes to start marketing itself in other fast-developing countries such as China and Brazil. "Problems such as climate change are going to be globally disruptive," says Wheat. "Remember, very, very few people sat out of World War II. Well, global warming is on the scale of World War II. No one — no company — will be able to sit this one out either." HaraBara will hope his hunch proves right.

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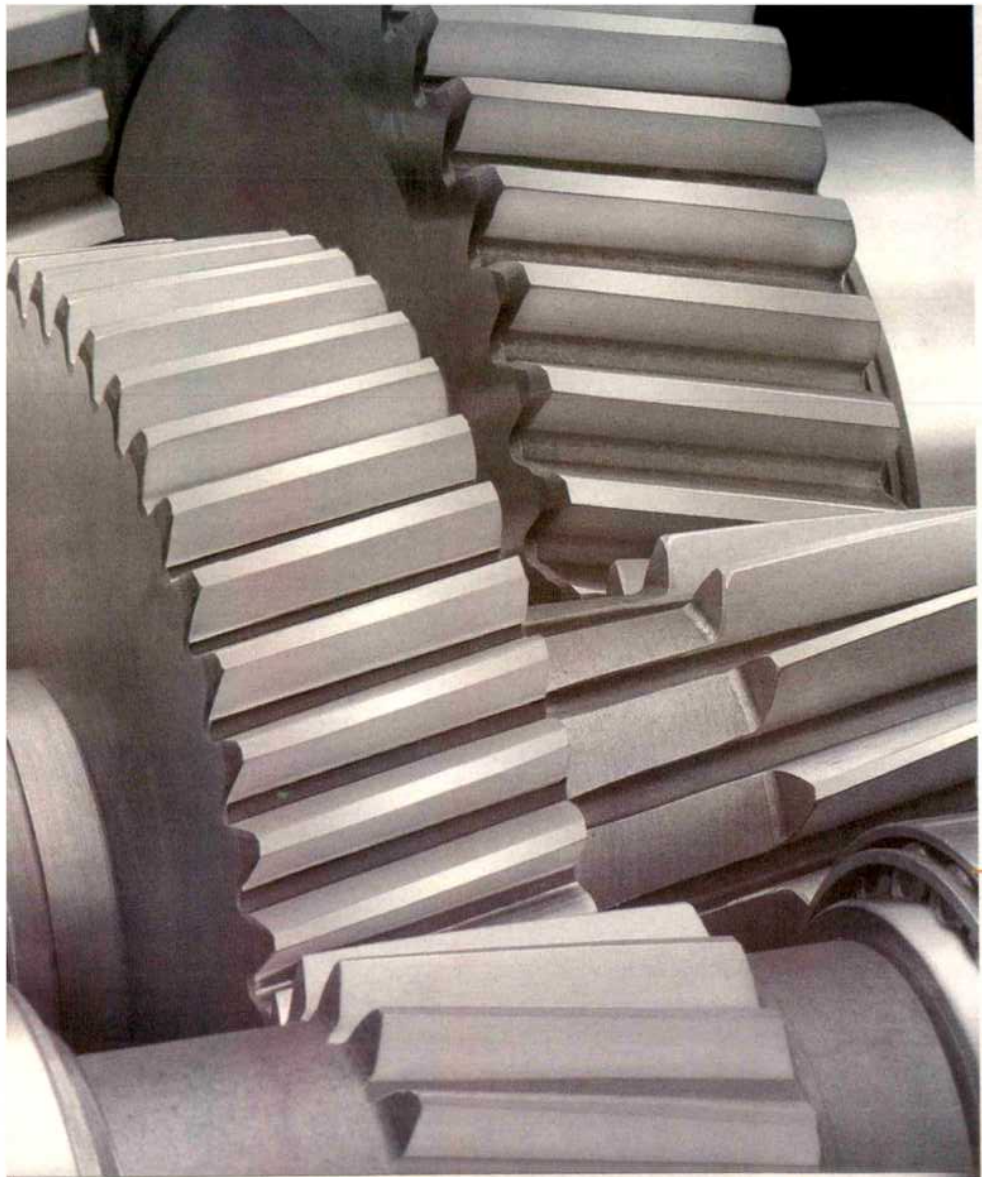

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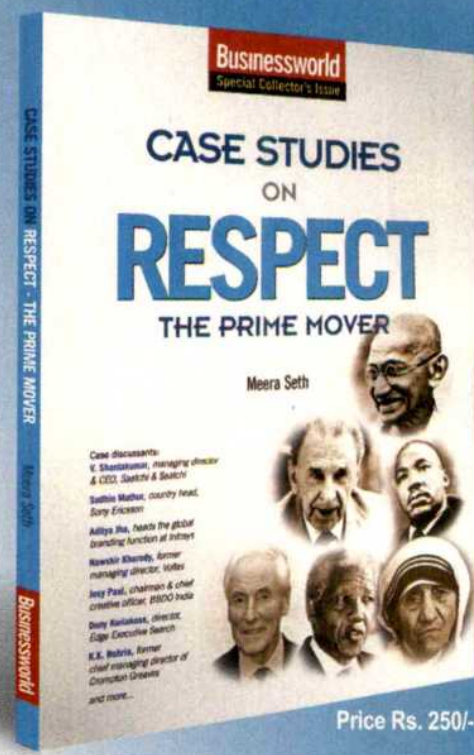

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Healthy, Wealthy And Wise

"We simply attempt to be fearful when others are greedy and to be greedy only when others are fearful."
- Warren Buffett

by meera seth

ABRAHAM VARKEY LOOKED AT THE YOUNG MAN before him. Barely 29, Pulakesh, a very hard-working junior manager sat there, restless, broken and lost as if the whole world's burden had descended on him. Abraham, the Managing Director of EG.net could not tell what the problem was. Anuraag Gera, the Human Resources head, stood by, hand poised on mobile phone should Abraham ask for a doctor. Three other staffers who had been present in the Audio Visual Room watching the Obama victory when Pulakesh broke down, hovered around him.

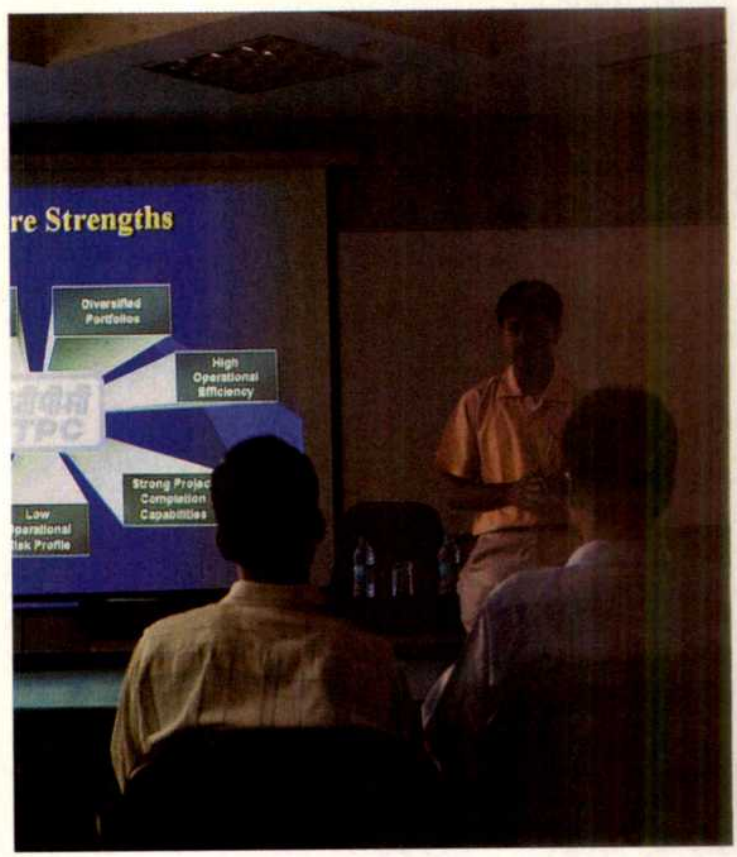
Abraham requested everyone to leave. Only Gera stayed back but shifted to an extreme corner. As Abraham coaxed him with words, Pulakesh calmed by and by... then he said, "Will change come now, Sir? Will all this... this... this... go away?" Abraham was disturbed; he could not tell what Pulakesh meant, but it seemed to him that today's young were worse off than today's older. *The older have insecurities of health and ability to pay for it, the young fear life itself.*

"I have just been feeling totally not myself sir," said Pulakesh as he began to experience some clarity. "Everything feels different and unworthy. Even things and places smell different to me."

Pulakesh's colleagues mentioned that he had been restless over his 68-year-old father's decision to return to work to improve the family income. Youngest of five siblings, Pulakesh had been most unhappy; his two older brothers who traded in computer peripherals were having to scale down their business. So, was this the trigger, wondered Abraham.

Elsewhere, Gera was grappling with a different 'shock'. Sales Director Gopi Anand had been desperate. He had wanted the 'selling during recession' morale building workshop to happen but, Gera could not sanction more money. This quarter the training budgets had been cut by 32 per cent across all divisions. Yet Gopi persisted, and Gera kept fielding. "You generate Rs 25 lakh and I will let you do this workshop," he had said casually, confident that that was not going to happen. Now Gopi had come back saying, "My teams are willing to give up the annual medical check up (AMC) for the workshop."

Comforting a startled Gera, he added, "Anuraag, you do get bogged down by rules. Be practical — during bad times it is more important to protect the organisation's health and morale. If sales fall, organisation health will slide, as will all round morale. As for healthcare (HC) people are being paid quite well to look after themselves. Paid HC is a product of a labour-led market; but, times have changed! "



AMIT VERMA

After three days of pontificating over Gopi's idea, Gera relented. *Why not! When the company is bleeding, let health become the responsibility of the individual! I will convince Abraham.'*

Gera had suddenly found a great model; he now wanted to restore other training work-

shops, which he had had to put on hold. Part of the plan was to issue a *farmaan* to the organisation to finish their AMC by 1 November. He knew many would baulk as it was impossible to find time for anything at year end. Now, he would freeze the budget early and then use the 'favourable variance' to spend on training.

Here Abraham followed up on Pulakesh — he certainly needed help. Calling Gera, he discussed his anxiety, "I am going to get him counselling support if he will agree. He is under a lot of stress from what I heard. It seems like a lot of build up... And he is only 29!

Gera: Frankly, Abraham, I don't understand. Question is not 'why is he anxious'; question is, is he the only one anxious? Everybody is! But Pulakesh more so; why? Because his education is not going to hold out in the next 5-6 years that it's going to take for the economy to stabilise! Pulakesh also knows his increments are going to be meagre; well, he needs to get out there and put shoulder to grinding wheel, improve his skills, take a few courses and prepare for the long haul...

Abraham: And what is that condition called, Gera? Don't they call that 'stress'?

Gera: Abraham, what is special about Pulakesh's condition that we have to change our policies, our cost structures? I have a budget of Rs X, and this X is shrinking day by day, so that I can't even tell you whether that X will buy 25 training modules for my star teams or 20. You want me to put that money into health? Yes, Pulakesh had a breakdown — he is a grade IV employee, the allowance for his lot is... well, lower. See, my point is: the environment is weird, it is manifesting differently in different families; these are harsh times, the dirt is beginning to show. So, there is no room for any dainty shuddering. Life looks grim for most people. Pulakesh's father has had to go back to work? Ok. Rageesha has a bad bruise under her ear; no prizes for guessing how it happened. Her husband has been laid off by Alcove India. Dharam has developed angina pains again; his son's US education bill has climbed 23 per cent simply owing to the rupee. What all will we pay for?

As Abraham grew thoughtful, Gera grew restless...

Gera: I have many KRAs, Abraham, training, health care, succession planning to name some; training is high-priority and my budgets are also stretched. Between you and me, I am happy outlaying less on HC, which is why I plan to freeze AMC early. I have already posted a positive variance of Rs 3 lakh representing grade IV employees who did not go for the check up before 1 October. People are busy, Abraham, very busy, they have no time for AMC... It is a good thing. And Pulakesh must be given more work to keep him from worrying. See, HC costs drag down profits; let people assume responsibility for their health and survival. I'd rather release monies into training.

Abraham: There is another viewpoint, Gera. If you put health into people, you create motivation and drive for life. If you put in training, you create aspiration for work. But aspiration for work is a given right now, because nobody wants to be without a job, see my point? But what is leaking is the drive for life and joy. That precludes HC. Don't ever forget the face of Pulakesh.

Gera: Abraham, you have taken over the business at a terrible time, inheriting a lot of mess both external and internal. End of day, our key result area is business sustenance and profits! Why should HR be worried with health when the metrics for measurement are on business results, retention, motivation etc? Then again, 40-45 per cent of our people are below 35. Young population means, less health worries.

Abraham: I wonder about your assumptions Gera; maybe you have not reckoned with Dushyant Verma who had his first heart attack last month at the age of 34.

Gera: An aberration, if you ask me.

Abraham: A reality Gera, a reality. And EG.net will be grateful if you see HC as an important result area for HR.

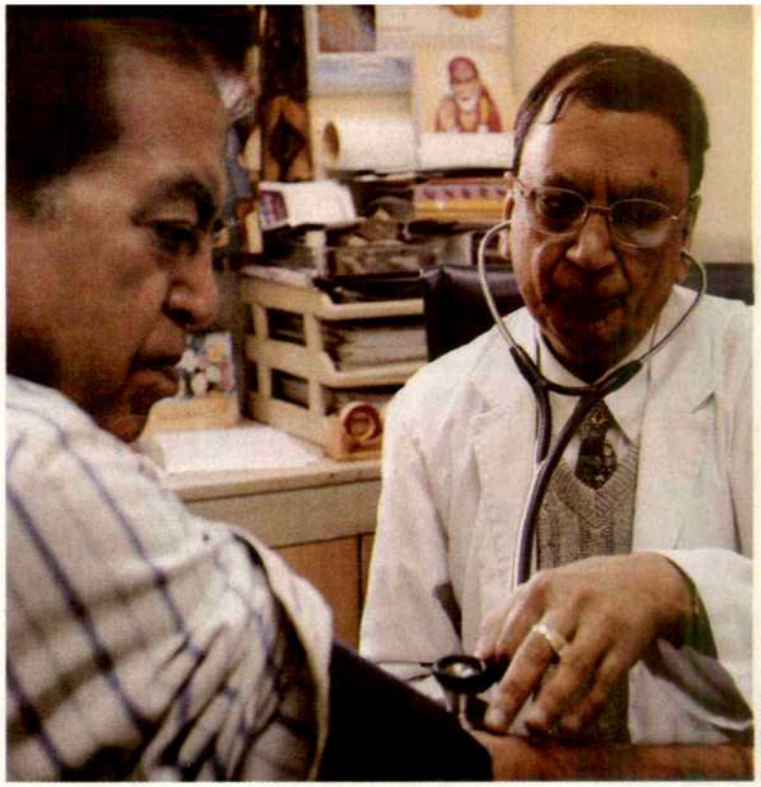
Gera: Of course, please do not think me brazen or insensitive! Welfare and all that I really factor into my work; but in today's times with budgets thinning, if companies could get out of HC responsibilities, they would. That's the bigger reality!

Abraham: Preventive HC cannot be ignored. And this is not about human resources; this is about maintaining my assets for productivity.

Gera: I have nothing against healthy employees, but I am only saying press on with training. In troubled times, nothing gives a more solid message of good news and optimism, as Training does. HC on the other hand only makes things look bleaker! I say Training is about growth, HC is about maintenance. The choice is clear, no?

But Gera did not push his luck, having successfully led Abraham to the edge with his argument. He had Pulakesh sent for a complete medical check up. A week later a composite report arrived — Pulakesh was mildly diabetic. The same week, Pulakesh's appraisal rated him a middling 'poor'. Gera thought he had been absenting from work, but Dr. Kapil Wahi the medical officer at Clover Hospital said, "It's a new condition organisations are grappling with called 'presenteeism' — where an employee, though at work, is not fully productive due to underlying chronic ailment like untreated/ inadequately treated hypertension, diabetes or stress."

"Preventive healthcare cannot be ignored. And this is not about human resources; this is about maintaining my assets in perfect shape for productivity."



BLOOMBERG

Dr. Wahi added, "Hypertension and diabetes are common occurrences in India. The percentage prevalence of hypertension typically in corporate India can be as high as 15 per cent with diabetes being upwards of 10 per cent. Some specific groups like frequent travellers (e.g. sales force) post higher rates. You can imagine the business cost of letting them go undetected! The World Health Organization estimates that between 2005 and 2015, India could face an income loss of US $ 237 billion on account of productivity decrease and costs towards chronic diseases like heart disease, stroke, cancer, diabetes and chronic respiratory conditions! So, we cannot afford to ignore the silent diseases!"

Gera was depressed. This did not augur well for his plan to release HC budgets into training.

Elsewhere, Abraham was getting agitated over Gera's move to trade off HC for training. As he said to Gera, "I am new at EG.net, but not new to governance! Yet given that so much has changed, I will pay attention to every suggestion but finally take a decision that is good for the organisation."

That evening he was on a review panel to help his good friend and vendor Vittal Morro of the Morro Group, build a second line of succession. Morro had lined up his 12 star managers at the Group's various businesses — who were to be rated as part of an extended 360 degree review.

With Gera's ploy high on his mind, Abraham asked one of the candidates, "What would you say if your HR man suggests outsourcing HC to release money for training?" Darsh Dalal replied, "Healthcare is certainly non-negotiable. It needs to be on the HR agenda; it does not fit anywhere else! And it's not a BIG one, yet. It should be, though!" Abraham was marginally relieved.

Another candidate was Arnav Kant, president of Morro's BPO, ToMorro. Abraham asked, "Recession is meaning different things to different people in different functions, Arnav. In a BPO there is always that drive to keep client chargeables low, yet not lose revenue. Organisations do not work with the trends that may be easily available to them. For example, if a majority of your call centre workers are going off sick because of a pain in the neck then you want to ask yourself, do I correct their posture or do I spend money on annual X-Rays. What would be your dilemma?"

Said Kant, "Actually I do not invest in employee health in a call centre where attrition rates are so high that it may just add to my costs. So, I work on correcting posture, providing ergonomic chairs and tables and improving productivity through a better environment. If an employee has a problem so severe that it takes an X-ray, I would rather force attrition in this case than manage his health. Bottom line, in an environment where employee churn is rapid, normal rules do not apply."

"Health-'velth' and all must be forgotten. All the plush aspects which we indulged in — preventive or mandatory HC, AC rooms for surgeries, air-lifting employees for 'better' treatment, all this has to go."

Abraham was thoughtful. It was a logical response, yes; but far too logical, he thought. Did this make sense at all? Or was he missing something? The whole market was a churn, so that it was tossing up new attitudes, attitudes like those of Gopi Anand of sales, for example.

Yet, there was Gera who had told him, "The next 4-5 years are going to be terrible, Abraham! Health-'velth' and all must be forgotten. We must now change the way we do things. All the plush aspects which we indulged in — preventive or mandatory HC, AC rooms for surgeries, air lifting employees for 'better' treatment in bigger cities, all this has to go. Health has to become the responsibility of the employee... employees are young... we have done pre-employment medical check up... they are good for 5-7 years. Why incur Rs 8 million every year? If we assume 55-65 per cent of staff are less than 35 and don't need AMC, then we save Rs 6 million every year! Isn't cost cutting on the agenda?!"

And then, the unforeseen happened. When Abraham was at Morro's office, Gera was called by his agitated family. Younger brother Aniket had been asked by his office doctor to go for a CT scan following some routine medical check up. Gera was alarmed. Aniket was 30, certainly not the age to be meddling with scanners. He called Dr. Desai, the CMO of Gemett where Aniket was a product manager.

"This is merely a preventive and cost-effective check," said Desai. "But what has triggered this?" asked Gera. "Some mild positive readings in his

stress test. We have introduced this in the area of preventive cardiology for our high-risk employees. Helps them and helps us save long term costs. For those diagosed with hypertension, diabetes, high cholesterol or those with a positive stress test — we encourage them to undergo a CT scan of the coronary arteries, which is a new management of health risks. We have picked up quite a few cases of blocked coronary arteries and had them undergo angioplasty, which has in essence prevented these individuals from coming down with a myocardial infarction (heart attack) thus, significantly improving their quality of life as well preventing future complications."

Gera: "But he is 30! What are you saying!

Desai: My friend, which world are you living in! Thirty has no sanctity anymore! In fact today, the younger are at higher risk because your eating and living habits are all suboptimal! Take a look at his diet, my friend: fast food, beer, sugarated drinks, combined with sedentary life style, high stress job, long working hours, reckless travel... He is our A-class risky candidate! And then he has registered border-line positive on stress test! The good side is, he is young and capable of accepting correction more easily. As times change, we must adjust our panic levels also. Ok, why don't you come over, I will explain at length. Trust me there is nothing to panic."

The family prevailed upon Gera and forced him to go see Dr. Desai, which he did reluctantly. "How healthy are your managers, Mr. Gera?" asked Desai almost as soon as he entered. "Quite healthy and our office lunch is also designed by a nutritionist. Plus we send them for annual check ups... so...," ended Gera limply. "And what do you do with what is said in the report?" asked Desai. "Have you tried to establish patterns or trends? Patterns enable organisational study, you know."

"Well we do various things to remain on top of the organisational health," said Gera.

Desai was pleased, "That is good! Say, do your reports lead you to study mental health of your employees?" Gera was alarmed. "Mental health? We don't have those kinds of problems, good lord! Oh if you mean tiredness and low productivity, then we have stress management workshops and things like that."

Desai looked hard at Gera, "In the last three years how many of your managers have been through a divorce or separated? How many have juvenile delinquency at home — kids on drugs, alcohol, minor crime? How many have marital discord (physical abuse, verbal assaults...)? How many repeat road or air rage cases?"

"Doctor, these are personal family matters," said Gera; "If they have this, well.."

"'Well'?" said Desai. " I will tell you; if they have these, then know for a fact that the genesis is usually the workplace. For example, your brother's alcohol intake is unusual for a young man of his socio-economic profile... and he tells me it helps him sleep better..."

"If someone wants his job badly, let him take initiative and improve his worth. But health costs of those who are on my payroll, is exactly the same as the AMC on my other assets... my duty."

Gera was stunned, and before he could say anything, Desai said, "So, I have checked the trends in marketing at our organisation and homed in on some patterns that I will be working with, and importantly, I will be using these trends to develop a 'how to' process for people like Aniket who tell me, 'I always need two drinks every evening and before going to bed'. I take responsibility for his attitude, because a lot of what he does is a survival response to his workplace. I didn't get to 59 on a skateboard, Mr. Gera! So, all those reports about your people from the hospital should generate change...Yes?

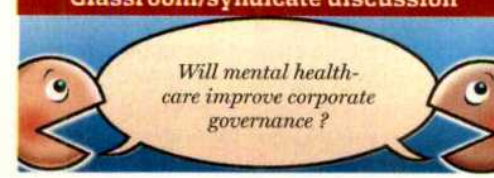
"Remember only a few managers have cancer or a heart attack but most managers have stress and related health problems, most managers have a depression at some time in their life and most managers are angry and alienated at some time. Most managers drink and smoke to cope with the realities of the business and for many promiscuity has become a coping strategy, which is leading to immense risk! As a HR person you cannot turn your back to all this!"

Abraham's last candidate was Mohajit Khuller, Morro's retail CEO. "And if I was your HR head and I said 'HC is a perquisite, we will withdraw it to save costs', what would you say?" Khuller replied, "What costs are you saving? Will you consider cancelling the AMC of your plant? Same with people. "What you think is a saving, will fester and ferment into a larger organisational cost." Whereas, if there is a tussle, then training is what should become employee responsibility. This is an employer's market. Employers can choose what they want, how many they want and what kind they want. If my people did not have the drive to train themselves, I will sack them and find better people. If someone wants his job badly, let him take initiative and improve his worth. But health costs of those who are on my payroll, is exactly the same as the AMC on my other assets... my duty."

When Abraham was driving back, his mobile beeped a text message from Gera: "On second thoughts, we won't touch AMC just yet..."

casestudymeera@gmail.com

Classroom/syndicate discussion



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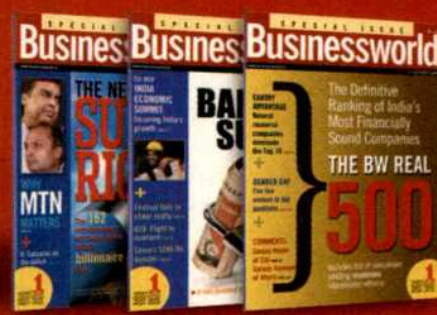

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Businessworld
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Health is Wealth

HR people should be more responsible towards the only living asset in a company

ALMOST HALF WAY THROUGH THE CASE, ANURAG Gera, Human Resource Head of EG.net says, "Please do not think of me as brazen or insensitive" and perhaps he isn't. Then how has this situation arisen?

As we go through our lives experiencing situations and relationships, we develop "pictures-in-the-mind" — paradigms that guide us in dealing with subsequent relationships and experiences. For example, if one grows up with a dictatorial father and has strict and unreasonable teachers, the picture-in-the-mind of 'authority' figures is that they must be obeyed or avoided, they cannot be reasoned with. All of us carry these unconscious pictures that many times come in the way of exploring and ascertaining what the actual situation or relationship is about.

From the case we get evidence that Gera carries 'pictures' about 'employees in an organisation' that are not so uncommon. One of these is an employee as "bullock". He suggests that Pulakesh — the 29-year-old, grade IV employee (who is subsequently diagnosed with diabetes) — "needs to get out there and put shoulder to the grinding wheel." One gets an image of an emaciated ox feebly staggering around in circles and being applauded for the effort.

Another picture-in-the-mind is employee as "Return on Investment" (ROI), which may not be too bizarre but the assets one is investing in are viewed peculiarly. They do not seem to be viewed as thinking and feeling adults and the lower down they are in the hierarchy the less thinking and feeling they are. He says, "It is a good thing" after unilaterally bringing closer the deadline for the Annual Medical Check-up (AMC) for grade IV employees to 1 October and saving Rs 3 lakh! He has no sense of how they will feel cheated and resentful and is planning to bring forward the AMC deadline for the rest of the employees to 1 November — knowing they will be too busy to go for it. Only when Dr. Wahi gives him the Indian and WHO statistics and projected losses does Gera slow down in attempting to implement his 'new model' of financing training with AMC money. Even then he seems to be sticking to his old position. He tells Abraham, "Health-'velth' and all must be forgotten".

Even if Gera is using an ROI model he is not using it with any deep understanding. He has ignored the managing director, Abraham's input, "preventive HC (healthcare) cannot be ignored... this is about maintaining my assets for productivity". This view is later reinforced by Mohanjit Khuller who says, "What costs are you saving? Will you consider canceling the AMC of your plant? Your computer? No? Why?

Same with people. What you think is a saving will fester and ferment and explode as a larger organisational cost!".

Early in the case, Gera says, "...let health become the responsibility of the individual" and, in a sense, he is right. All sane adults are ultimately responsible for their mental, spiritual and physical well-being. Except that the conditions under which, they live and work can help or hinder their taking up that responsibility fully. An average employee today spends at least 10 hours at the work place and a couple of hours in commuting. Therefore, for most of his/her working life an employee is being impacted by organisational demands and work climate. So, the organisation is responsible.

Unfortunately for Gera — but fortunately for the employees of EG.net — fate seems to have stepped in and forced him to re-examine his assumptions. His family forces him to see his younger brother Aniket's company doctor and the conversations he experiences with Dr. Desai make him ponder about his own stance and, hopefully, HR's role in employee health.

When he disbelievingly states that his brother is only 30-years-old, Dr. Desai directly confronts him by asking, "My friend, which world are you living in!" He goes on to 'educate' Gera on how organisations use medical reports to diagnose their responsibilities — what they are doing/not doing that could cause ill health (including mental health) and then develop 'how to' processes to guide people to take charge of themselves. In the absence of this, employees reach for 'survival' strategies to cope up with — alcohol, junk food, sex — that seem to give short term relief but very quickly lead to great damage.

One hopes that when Gera meets Abraham next he not only withdraws his 1 November deadline letter but also recommends that the 1 October deadline for grade IV employees be scrapped.

People in HR are responsible for the only living asset in the corporation. Given the pressures that exist — and are bound to increase during the tougher times ahead — it is important that they learn to 'hurry slowly'. They cannot afford knee-jerk reactions or short-sighted decisions. They must keep in mind that the human being is complex — not only a 'doing' asset but also a thinking and feeling one.

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Caring For Costs

You have a health policy for employees so that it helps you develop your organisation

THESE ARE DIFFICULT TIMES. SOMEONE USED THE metaphor of tsunami for the meltdown. There is a tragic similarity between what is happening now in people's lives as a result of the meltdown and what happened when the tsunami had hit the coasts of Tamil Nadu, Sri Lanka and Indonesia. Each disaster impacts a large population and there are many phases of the impact. Lives are lost, loved ones cannot be found, assets are lost, people lose their livelihoods and their skills are not as valued. But what is lost more universally is a sense of trust, belonging, belief in the goodness of people and belief in oneself. There is a sea of fear and there is a sea of greed. It then becomes imperative that we return to the framework of our values when we are taking decisions rather than looking at ad hoc benefits in the short term. Investment in health is one such decision that we must focus on.

For Anurag, health is not perquisite. It is an investment in development and sustenance for the organisation. It is not staff welfare. If one acknowledges that each person in the organisation has a role that fulfills the organisational objectives then each person has to be valued and recognise that their ill health has a cost that will affect the bottom line.

In our country, it is a reality that one person's life is treated as more valuable than the others. The access to health is limited. Mothers die giving birth to children in unacceptably high numbers, too many infants die in the first of their life, many of those who survive die before they reach five years of age. Many people do not have access to water and sanitation. One in every four people have a psychiatric disorder and do not have access to mental health care, people are chained and get burned alive in a fire because they have a mental illness. The walls of Murshidabad's mental hospital are black because they are covered with human lice. There are many deaths everyday because of snakebites, these death take place because India cannot invest in a cold chain for the antidotes to be made available nearer to where they are needed. The same country prides itself in medical tourism for coronary artery disease. It is an unfair world. People survive this unfairness. They seek education, work hard and become a part of the organisation to escape this unfairness. Do you want to then treat them unfairly one more time and push them back into the realm of optionlessness? When decision to access health care becomes an individual's choice it becomes a victim of competing demands. More so for women in our organisations and our country.

Anurag, do you want to be a microcosm of such discrimination? You cannot be discriminatory. Aniket, your brother, Pulakesh, your 'grade IV' colleague, are both valuable to the organisation that they work for, the family they belong to and the society which they contribute to. The society and the organisation needs to ensure their health if they want to benefit from their skills. If a society or an organisation discriminates on the issue of health then one person's life is valued more than the others.

Dr. Wahi's prescription is an important one. You have to demand for trends from the health service providers. These trends will provide you inputs to invest in preventive health strategies and lifestyle change efforts. If the preventive health check tells you that your employees are angry, smoke and have high cholesterol levels you could change the lunch you provide, help people come of their nicotine addiction and help them learn anger management skills.

Dr. Desai, you are not for real, most doctors overlook mental health. Mental health determines to the way people think, feel and act. Mental health interventions should be used as a strategy to empower the workforce and to increase the productivity. Such a strategy will have the following components:

Universal Services for all employees which enhance motivation, morale, life skills, lifestyle changes and development of identity.

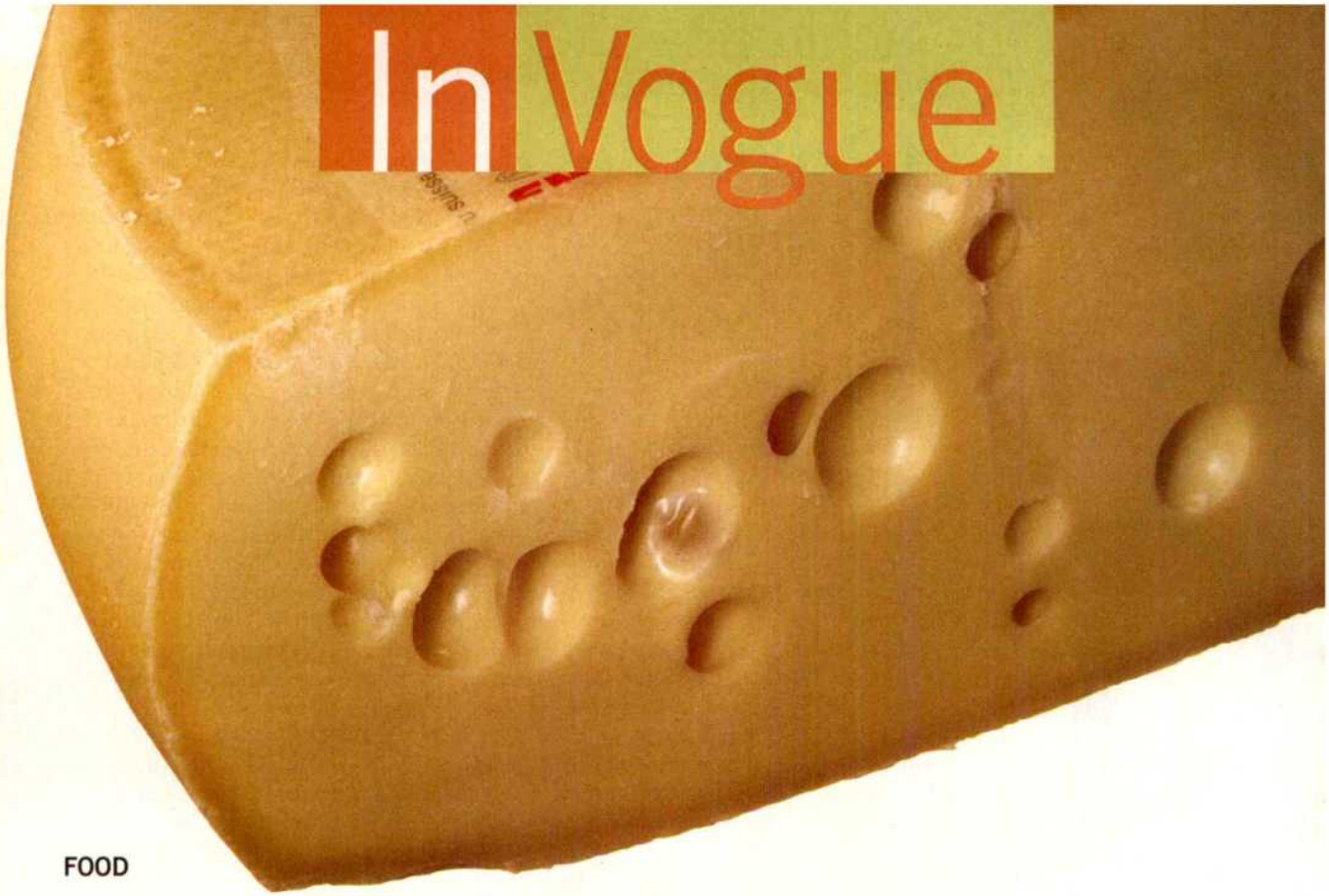
Referral and treatment of those suffering from minor and common psychiatric disorders. These disorders when undiagnosed and not treated may impact the business processes in the form of behavioural difficulties, absenteeism, low interest in work, and decreased attention concentration. People facing long-term psychological distress either through difficult circumstances or through biological or psychological vulnerability may develop negative thinking patterns.

The impact of mental health services on an organisation over a long period of time are increased sense of belongingness and ownership, decreased attrition rate, development of a distinct value based culture.

You do not have a health policy and access to health services in your organisation so that the employees think that you are a nice person, you do so as it helps you develop your organisation and decreases the cost of the work that you do.

Do take care!

Achal Bhagat is a consultant psychiatrist and psychotherapist at New Delhi's Apollo Hospital and heads Saarthak, a voluntary organisation



FOOD

Say Cheese

As the wine-and-cheese circuit grows, more imported varieties are coming to India

By Shalini S. Sharma

THERE IS CERTAINLY NOTHING CHEESY ABOUT cheese — perhaps the oldest known fermented food in the history of mankind, barring of course wine. And just as wine, it has a history and culture of its own. There are as many different varieties of cheese available in the world as there are breeds of cows, buffaloes or goats producing milk or vineyards growing grapes.

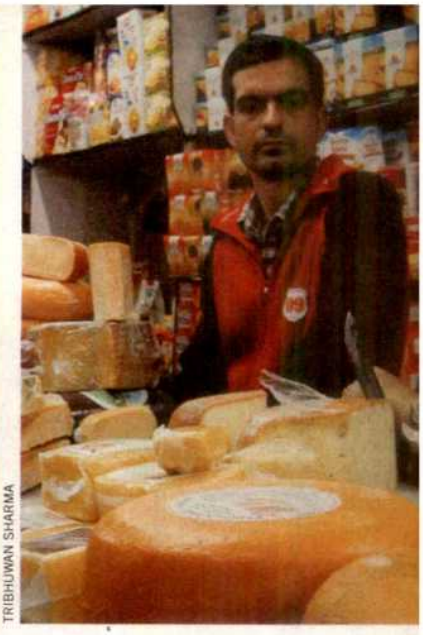
In recent times, the best-seller *Who Moved My Cheese?* by Spencer Johnson — which uses cheese as a metaphor for success and good life — has perhaps done as much to revive interest in this food item, as Australia-based foodie Will Studd's documentary *Cheese Slices* on Discovery's Travel and Living channel. On to the second season of the documentary now, after a book by the same name in 2007, Studd, in a telephonic interview to *BW* from Australia, says, "Cheese is really multifaceted. It never ceases to be fascinating and reflects the wonderful traditions and skills of those who make it."

Literary and semi-literary props apart, the increasing globalisation of food habits in

WHITE GOLD: Imported varieties of cheese can cost as much as Rs 2,000 per kg

AMIT VERMA

PHOTOGRAPHS: DISCOVERY TRAVEL AND LIVING



TRIBHUWAN SHARMA

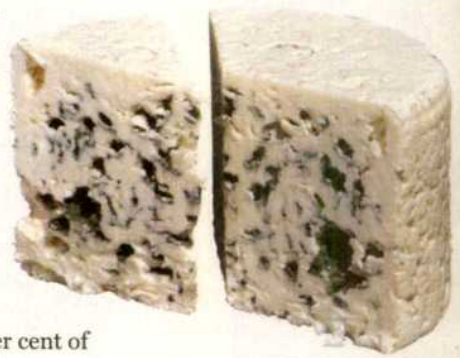
CREAMY AFFAIR: Will Smith on *Cheese Slices*; a shop selling exquisite varieties in New Delhi

India — with Italian cuisine as much in vogue as *idli* and *dosa* — has made cheese a must on the dining table. Whether it is flattened on a round pizza or dripping out of a burger, the protein and minerals in the cheese are the only saving grace for a fast food-guzzling generation.

Cheese on pizza, cheese in burgers and cheese on toast have been around for decades, but India is only now waking up to the nuances of gourmet cheese. The wine-and-cheese circuit is well-travelled and hence well-versed with international taste and flavours. It not only is more discerning and demanding, but is also willing to shell out the top dollar for the authentic stuff. No wonder Indian stores are flooded with cheese imported from Holland, France, Italy and Switzerland.

So, it is not Amul or Britannia cheese cubes that one sees at the tony outlets in metros — especially Mumbai and Delhi — but chunks of exquisite edam, gouda, blue and brie that can make your mouth water. The aloofness of Ricotta straight from the Alps makes it all the more alluring for snooty socialites who would not settle for anything but the most pricey varieties for their guests. Snob value it surely has, but cheese does not fail to offer calorific value either to the big and burly Punjabis from Jalandhar. Some prefer cheese pastries or simply chomping on the creamy slices, to *paneer tikka* or butter chicken.

There are at least four major importers of cheese in the country — Delhi-based L-Comps, Impex, World Wide Foods, Epicure Foods and Mumbai-based Fortune Foods — and their numbers are growing by the day. They currently fly in roughly 30 to 40 tonnes of cheese every month to satiate the club class's appetite for the fine stuff. No prizes for guessing where three-fourths of it goes. Yes, five-star hotels buy 75 per cent of imported cheese.



Once the consignments land at the Nava Shiva Port near Mumbai, cheese boxes are transferred to cool containers inside which, the temperature is maintained between 2 and 8 degrees Celsius. The logistics takes a toll on the final price of the retail product, which after adding 37 per cent import duty, 12 per cent value-added tax and 30-40 per cent retailer margin comes to around Rs 400 for a 200 gm cube of any famous brand.

Smelling a growing market, some Indian companies such as Flanders Dairy, Dairy Craft and Exito Gourmet, besides Amul and Britannia have decided to mass produce some of the varieties. But a connoisseur will insist on nothing but the best and the most authentic. And why not? After all, the mass-produced cakes of, say, Cheddar can be as different from the hand-made Gruyere in Swiss cottages as chalk is from cheese.

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LONDON CABS

Now, made in China

THE BLACK CABS ARE perhaps for Londoners what the yellow and black taxis were for Indians till a few years ago. While one does not see too many of those iconic taxis on Delhi roads anymore, London cabs still seem part of the landscape of the Queen's city — even though they face competition from sleeker alternatives.

And now they are all set to go places. Chinese automaker Gelly started full-scale production of these famous British cabs in Hangzhou in mid-December, after a joint venture with London Taxi International. Gelly plans to sell 6,000 taxis in the next one year — more than double the annual output at London Taxi's Coventry plant. This will help them get a global footprint as Gelly plans to export them as well — to the US and Middle-East.

LUCAS SCHIFRES

BLACK MAGIC: London's iconic black cabs will now be seen in China

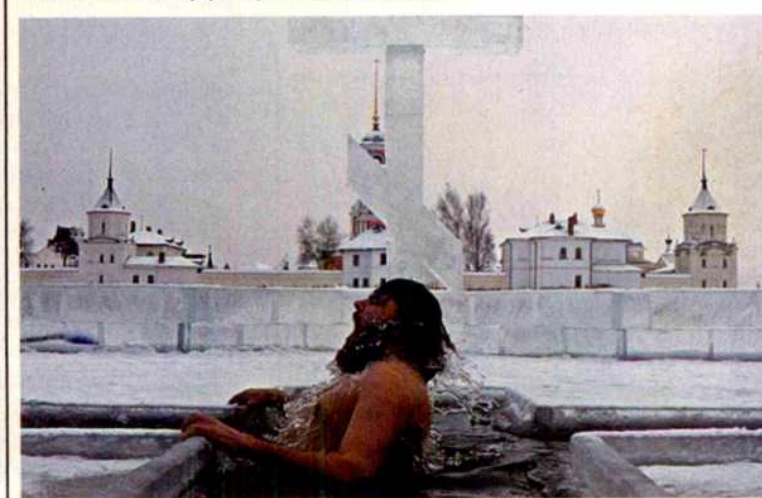
The move may be a result of the falling popularity of the cabs in their city of origin. Julie Smith, a student at University College London says, "There are other taxies and hire-cabs, which are more convenient."

But some like 70-year-old professor Anand Kanbur, who taught at the University of Birmingham, fondly remembers his royal ride in the big black cab, when he came to the UK for the first time.

Soon, people in China and the US will get a taste of travelling London-style, back home.

Janhavi Abhyankar

Celebration Time: A Russian man takes a dip in ice cold water on the occasion of Epiphany in Rostov, Russia.



AP

BEVERAGE

Brewing gourmet

BLOOMBERG

FOR THOSE CRAZY about gourmet coffee, it does not have to be a journey to the Jamaican Blue Mountains or to the plains of Ethiopia to get the best one. Costa Rican dark roast, the Kona whole bean from Hawaii and the Peruvian whole bean are available online if you are ready to shell out $25 for a kg. Both grounded coffee and beans are available at that price.

Or simply walk into the nearest Café Coffee Day or Barista outlet — their Morning Java or the Gourmet Lavazza come quite close to 100 per cent Arabica coffee.

Five-star hotels across the country serve gourmet coffee by request. And you can request for that special blend for about Rs 250 a cuppa. "Gourmet coffee is worth drinking if one understands the taste. The coffee should be drunk black and it is original gourmet coffee if it is not bitter," says Samar Gupta, MD of Trikaya Agriculture.

COFFEE TRAIL: Gourmet coffee is fast catching up in India

And if you get your hands on a cup of gourmet coffee, make sure you do not spoil its taste by adding excess sugar. That is like a French chef saying sarcastically, "*Ne mettez pas de ketchup sur mon steak*," which translated into English means, "Do not pour ketchup on my steak."

Gourmet coffee is the latest delight for coffee-lovers but some are still content with our homegrown variety from the hills of south India. "I get my coffee beans from Coorg, the Robusta version, and have the beans roasted from a local coffee powder maker," says Gupta. But he does agree that gourmet coffee is no doubt the best.

Vishal Krishna

BON VIVANT

In full bloom

PROFUSIONS OF ORCHIDS CAME ALL THE WAY DOWN TO New Delhi for the Sikkim Festival. For two days the Garden of Five Senses was abloom with rows and rows of Sikkimese orchids in every conceivable hue and colour.

The plant, it is believed, co-existed with dinosaurs about 70-80 million years ago. Today, it thrives in this tiny state with its sub-tropical temperate and alpine forests.

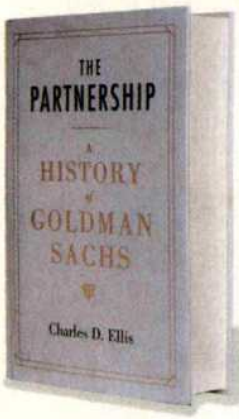
Sikkim's geographical features and biodiversity are a botanist's paradise with 460 species of orchids, and some 4,000 flowering plants and 300 ferns. The orchid, Sikkim's state flower, is perennial, growing anchored on trees or as a shrub, sometimes to heights up to 5,000 metres. Categorised as Super A, A, B and C, the prices of these flowers can range from Rs 50 for the C variety to Rs 150 for the Super A variety.

Despite the high prices, orchids have become a rage across the country. The trend started with white ones immersed in artificial colour. Slowly the blooms would acquire the colour, the petals tinged in blues or greens. But now they have been replaced with naturally coloured ones. Besides, the orchid's tenacity has added to its popularity — a stick can last up to a month in a vase.

The Sikkim orchid is all set to give tough competition to Singapore, globally known for its orchids. While Sikkim just has 460 species compared to Singapore's 700, it still has many unexplored hills and valleys where more varieties can be found.

Jyoti Thapa Mani

GIFT OF NATURE: A Sikkimese Lepcha girl and orchids signify the beauty of the eastern Himalayan region



Chronicles Of Goldman Sachs

by venkatesh ganesh

THE PARTNERSHIP A HISTORY OF GOLDMAN SACHS; BY CHARLES D. ELLIS; PENGUIN; PAGES: 512; PRICE: Rs 995

GOLDMAN SACHS, ONCE AN INVESTMENT BANK, HAS gone through very interesting times in its 130 years of existence. There has not yet been a comprehensive book that traces, analyses and puts into perspective the behemoth that became synonymous with high-flying dealmakers and aggressiveness on Wall Street.

Charles D. Ellis, who for 30 years was a managing partner of Greenwich Associates, an international strategy consulting company, has attempted a-first-of-its-kind and has put together a page-turner. His insights go beyond deal-making capabilities of Goldman partners. It delves into the minds of men who made investment banking a religion in Goldman; their creative finance options, which were radical at those times, and a vision that would be a benchmark for any financial firm.

Ellis reveals the inside story of the firm's survival capacities. From financial storms of the 1929 Wall Street crash and the Great Depression and Robert Maxwell's abusive frauds to insider trading scandals and the recent subprime meltdown. The company that we know today was unable to break into what was the major part of securities business in the early 20th century — underwriting the new bond and stock issues of the rapidly expanding, cash-hungry railroads. Marcus Goldman, a German-Jewish immigrant, and his son-in-law Samuel Sachs turned it into a financial giant in the niche market of financing small businesses in the 1890s.

It was a time when the US was morphing into an economic giant and spending on underwritings on infrastructure were a rage. This was dominated by the likes of JPMorgan, Kuhn Loeb and Spreyer & Co., who even told Henry Goldman that they will do whatever it takes them to prevent his firm from getting any part of this large and lucrative business.

Ironically, this proved to be fortunate. If Goldman had concentrated its energy there, it would have struggled for years to build up a share of a business that had already peaked; and like in any economics theory, after a peak there is an inevitable decline. Ellis points out that often in Goldman's history, specific gains and losses led to entrepreneurial decisions. Henry decided to turn his attention on the "unsavoury" business of industrial financing at a time when most were still small proprietorships. He began financing cigar makers and retailers, that were considered 'uncool'. His decision was also aided by religion, as both JPMorgan and George F. Baker (now Citigroup) would not deal with "Jewish firms."

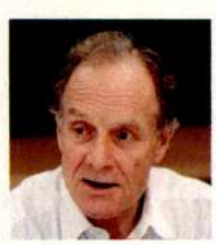
Incidentally, ideology was to cause a rift between Henry and his nephew Walter Sachs. In 1914, Germany declared war on Russia, followed by France and England. Walter returned from England expecting his partners to be strongly pro-Allies. He was dismayed to find Goldman proudly and intensely expressing views highly sympathetic to Germany. When Henry' well-wishers begged him to modify or conceal his feelings, he refused. This boiled over, and it came to a point when Henry had to leave the firm, and their personal hostilities continue. To this day, there are hardly any Goldmans who are on speaking terms with the Sachses.

Ellis brings into light the crisis that Goldman Sachs faced when Henry withdrew substantial capital, which created an enormous financial problem for the firm and left its underwriting business without his dynamic leadership skills.

The subsequent chapters throw light on personalities that moulded Goldman in the years to come. It embarks on the Sidney Weinberg-era, and talks about the man who witnessed Goldman Sachs' trading suffer loses

BROWSING
Prakash Prabhu
Country Manager, Axis Communications, India

I'm currently reading ROBIN SHARMA's The Monk Who Sold His Ferrari. Sharma adopts a simplistic approach to the familiar observation that people get so involved in their work and achievements that they forget their own well-being, and this takes a toll on their life. Technical books and periodicals form the major chunk of my reading, although I have occasional trysts with spiritual books. On my list are *The White Tiger* by Aravind Adiga and *The New Age of Innovation* by C.K. Prahalad



CHARLES D. ELLIS serves as a consultant to large institutional investors and wealthy families, and as managing partner of a pro-bono partnership, Partners of '63. He has served as a faculty member at Harvard Business School, Yale University and Princeton University, where he taught investment. Author of 14 books, Ellis has written nearly 100 articles for business and professional journals.

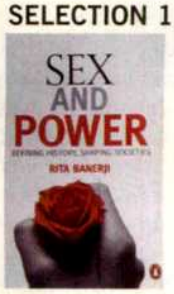
of $172. 5 million in 1931, which led to jokes like "they told me to buy the stock for my old age...and it worked perfectly...within six months, I felt like a very old man".

Between 1927 and 1947, the firm lost $14 million, and the Sachs realised they were not the right people for turning the firm around. Thus, Weinberg, with his determination, methodical approach and integrity, instilled a culture of belongingness in the firm. He set policies of capital retention, which forced them to build up equities in the firm and not on themselves. He undertook Ford's IPO in 1956, the largest at that time and the most important for Goldman.

Ellis profiles subsequent leaders such as Gus Levy, who bought intensity to daily operations to Robert Rubin, Hank (Henry) Paulson and Lloyd Blankfein. He points out that the firm dropped a series of dot-com bombs on the public in the 1990s, and had to pay a hefty fine as part of Wall Street's settlement over research.

The risk of writing a book that chronicles firms such as Goldman is a strong possibility of a twist in the tail. While Goldman has not gone bust like its competitors Lehman (with whom Goldman in its early years partnered to finance some companies), the company faces constraints as it moves ahead in uncertain times. Hopefully this book will not be an obituary.

SELECTION 1



Beyond Bedtime Stories

SEX AND POWER
DEFINING HISTORY, SHAPING SOCIETIES BY RITA BANERJI;
PUBLISHER: PENGUIN BOOKS;
PAGES: 432; PRICE: Rs 450

THE WORD 'SEX' ATTRACTS ATTENTION. IT SPARKS off those giggles in middle high-school biology class, and it's the reason for all that hush-hush gossip at after-office parties. It's the kind of word that is used both loosely and in serious academic study, and both have been happening since Vatsayan wrote the *Kamasutra*.

SEX AND POWER, DEFINING HISTORY, SHAPING SOCIETIES by Rita Banerji is another attempt to understand sex. And she takes it on from every conceivable angle — the individual, marriage, society, nation, economics, politics, caste, religion and rituals, psychology, nature and human behaviour. "Human sexuality thus becomes a prime target of the de-individuation process because it is a unique expression of individuality," she writes.

Banerji writes objectively, bringing in all the dimensions in the debate on sex. She makes excellent arguments on issues such as female infanticide, prostitution, the caste system, women's empowerment, privacy and health. Naturally, each of these topics are presented as both good and bad — for both men and women. However, there are several instances when the author cannot help but pick sides, even though wider debate could have been encouraged.

Banerji has traced the power of sex and its impact in all spheres from pre-Vedic times till today. Having the word 'sex' on the cover will make people stretch their hands out to pick it off the shelf. But remember, this book is not a refresher for class 10 biology — it is a serious discourse on one of the most fundamental aspects of being human.

M. Rajendran

SELECTION 2

The Little Things In Life

CECELIA AHERN'S EARLIER book, *PS, I Love You*, earned recognition for her writing style. Her latest book recreates the magic. THE GIFT takes readers into a different world as Ahern unfolds her story. It is a tale that each of us can relate to: about the joys that life holds, and how in our busy, mechanical lives it's the simple joys that seem far away.

The story revolves around a successful executive, Lou, who tries to multi-task at every juncture in his life. But in the end, he finds himself unsatisfied. And as is the case with most books, Lou's busy life gets a hand from his office assistant, who becomes his saviour and who makes him realise what a gift his life really is.

This book is about the second chances that life offers. It is about how one has to be practical about life's decisions. It also makes you realise that time flies unless you spend it well with the people who matter the most to you. As you read the fascinating tale of Lou's life, you are suddenly gripped by a feeling that maybe your own life could use some changing. Indeed, most of us could well be like Lou, in need of help.

The story is narrated by an elderly policeman to his junior at the police station. Even though the book is not a traditional self-help book, as you finish reading it, you will feel like it has made a difference to your life. It's a must-read for all fiction lovers.

Janhavi Abhyankar

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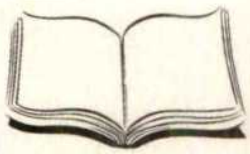

THE NEXT 100 YEARS: A FORECAST FOR THE 21ST CENTURY
BY GEORGE FRIEDMAN
DOUBLEDAY
George Friedman is the Chief Intelligence Officer of Stratfor, a private intelligence company that counts several governments and Fortune 500 companies among its clients. Nicknamed the shadow CIA, Stratfor uses its global network of 'agents' to analyse global events for their impact on its numerous clients and the locations they operate in. Given that background, you know that *The Next 100 Years* will be a fascinating read. At the very least, it may be a vaguely accurate guesstimate of what to expect. At its best, it may well prove to be the best crystal ball on the future.

Mindless Nice Words

RAW IS AN AWESOME OUTFIT; IT SPIES FOR INDIA. ITS tentacles are everywhere; the woman next to you in the bus may be a RAW agent after your black money. Its cloak-and-dagger techniques are legendary. It is so confident of its muscle that for once it surfaced and held an event in the full glare of publicity. It was to commemorate its superspy, the redoubtable R.N. Kao. And it invited the country's greatest astrologist to predict what will happen to the economy. The pity is that the event was not advertised; if it had been, hordes of us worried Indians would have flocked to the lecture; even the Ferozeshah Kotla ground would have been too small for us.

SANJAY SAKARIA

It is easy for our rulers to portray the economy in rosy colours; they never experience the hardships of common men and women

The forecast, from no less than Montek Singh Ahluwalia, is that half of India's population would not be affected by economic crisis. This is great news; all we have to do is to join the lucky half. Unfortunately, it is not that simple. For according to the foreteller, that half consists of farmers. So, to insure ourselves against a cold shower, we would have to buy a farm. That may be difficult, because most states have laws banning the purchase of farms by non-farmers. It does not mean once a farmer, always a farmer; but it means once not a farmer, never a farmer. The governments have made farmers into a caste; you have to be born into the caste. But no matter, they have also appointed priests to help us unfortunate outcastes. They used to be called talatis in British times; nowadays they are called Presidents of Gram Panchayats. For a modest fee many of them would give a certificate to anyone that not only he but all his forebears — even when they were hunters and gatherers — were farmers.

But the deputy chairman would not only disapprove of such corrupt practices, but would point out that mere acquisition of a caste conversion certificate would not qualify us for insurance against crises; we would actually have to take up the plough and start tilling our fields. And the reason why it would make us crisis-proof is not that such physical activity would make us sturdy, but that if worst came to worst, we would be able to eat our home grown carrots.

What the deputy chairman does not realise, however, is that the proportion of farmers in the working population has fallen much below 50 per cent. The reason is that we have not conquered any lands in the past 1,000 years, and our land area has fallen behind our population. The result is that farms have become smaller and smaller. Many have become so small that they can hardly grow anything. So villagers have had to turn to other things; over a third of them earn a living out of non-agricultural activities now.

And even of those who depend on agriculture, most have no land and make a living by working on other people's farms. They can do so because those big farms who employ them earn money by selling their crops. The government itself buys up 15 per cent of the foodgrains produced; private producers must be buying another 20-25 per cent. All those sold foodgrains, plus the commercial crops which are entirely sold, together come to over a half of agricultural production.

So, Indians — even those who earn their livelihood by toiling on farms — are far more dependent on markets than the deputy chairman is prepared to admit; and if they sell or buy in the market, they are vulnerable to the risks as well.

India may or may not be vulnerable to market turbulence. But it looks less vulnerable; that is because our government simply does not measure vulnerability. All industrial countries and even many developing countries have reliable statistics of unemployment, which is the most reliable indicator of economic distress. All that our government issues is registrations on labour exchanges. Many employed people are registered on labour exchanges; and the chances of getting a job through them is so small that most unemployed people do not get themselves registered there at all. The tax administrations of many countries publish statistics of wages and salaries paid out, which are another sensitive index of the state of the economy. Our administrations do not; and even their tax collections give no indication of the distress because businesses have to pay advance tax on the basis of their last year's income, not their current income.

P. Chidambaram, when he was finance minister, dismissed the index of industrial production as unreliable because it did not reflect his rosy view of the economy. M.S. Ahluwalia can ignore the woes too because his government does not bother to collect statistics that might highlight it. Both can be optimists because they can stay away from the realities of common livelihoods. Their jobs may be subject to the political cycle, but they are quite immune to the economic cycle.

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Super Crop or Frankenfood?

India's first genetically modified vegetable Bt brinjal, and other GM crops, promise food security. But consumer safety is in question

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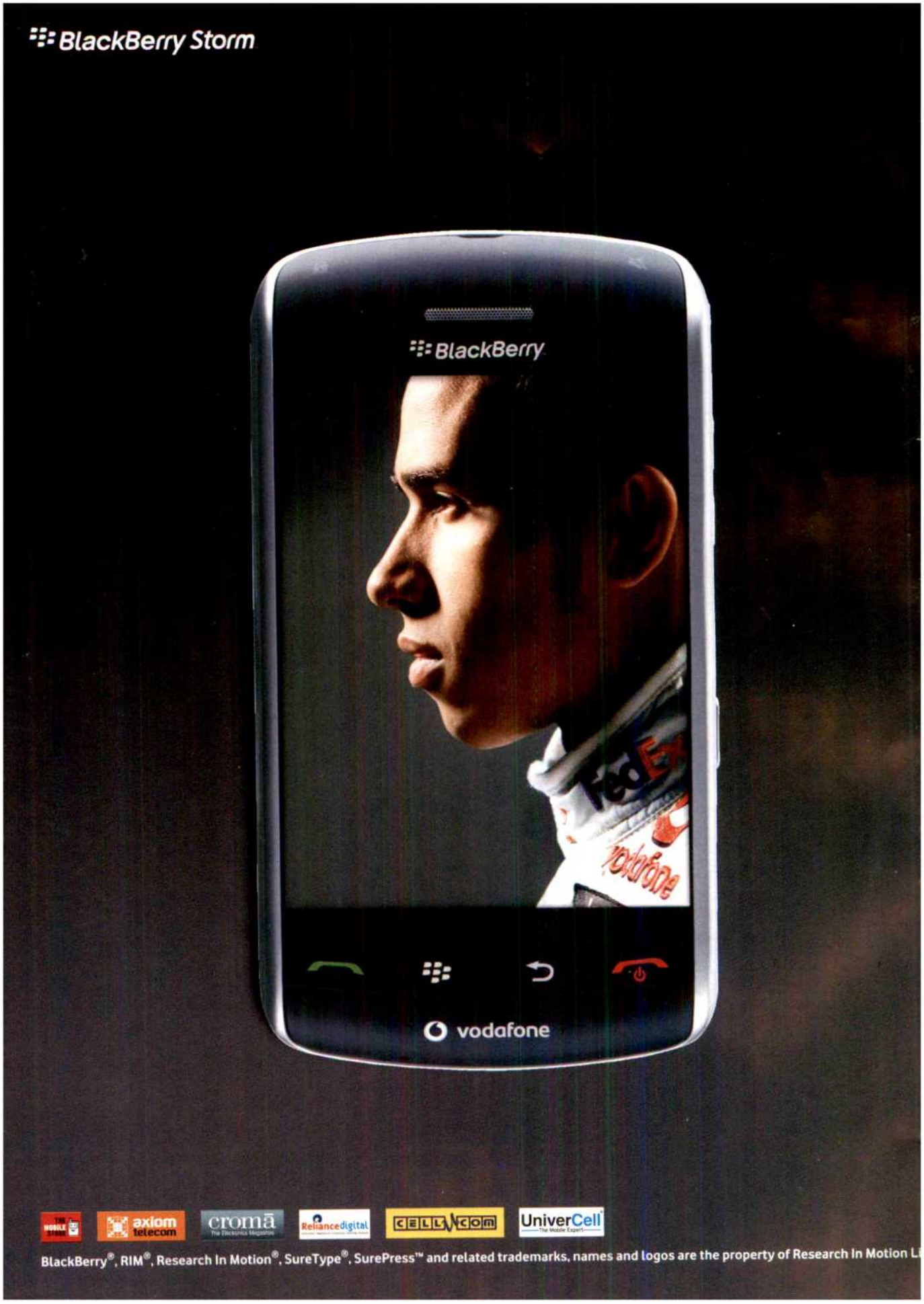
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Slapdash Policy

WHEN HUMANS GRAPple with their insecurities, some become aggressive but a majority goes on the defensive. When nations grapple with insecurities, they imitate human behaviour. India's response to a widening food scarcity has been as defensive as the majority human behaviour. For a nation whose population is doubling every four-five decades but farm yields are unable to keep pace, a humanitarian crisis looks inevitable in future. So India has responded by taking the easiest option — the high productivity genetically modified (GM) foods. The first of which — Bt brinjal — is set for approval any time now.

Strangely, we haven't even exercised all other options of enhancing productivity. A critical bill to increase crop production and quality, 'The Nursery and New Seed Bill' is still pending in Parliament. The government is yet to draft a drought code, a flood code and a weather code. And we have no answer to the growing water crisis. Instead, three dozen state-owned labs have been ordered to develop genetically modified fruits, vegetables, cereals and pulses to ensure food security in future. Bt brinjal is set to unleash an era of GM food crops in India. They will penetrate faster than the 7-odd years it took Bt cotton to establish itself. Because farmers, who have already experienced an average of over 250 per cent improvement in cotton yield, will embrace GM foods willingly.

But India is unprepared to handle GM crops because the government never engaged the general public in a national debate before allowing GM food crops. Several nations never ever made this transition, from non-food to food crops, because of fear of altering their food chains. Besides, India is yet to develop a GM foods policy that will bring in the necessary do's and the don'ts for the farmers and the industry. Indian regulators such as the GEAC (genetically engineered approval committee) don't have the infrastructure to supervise GM crops which require strict monitoring and labeling from farm to fork. And the impact of GM foods on human health and environment is still being debated worldwide. By rushing with GM foods introduction, India may have unwittingly discouraged new farming techniques and agri reforms, moves that could hurt in the long run.

rajeev dubey, deputy editor

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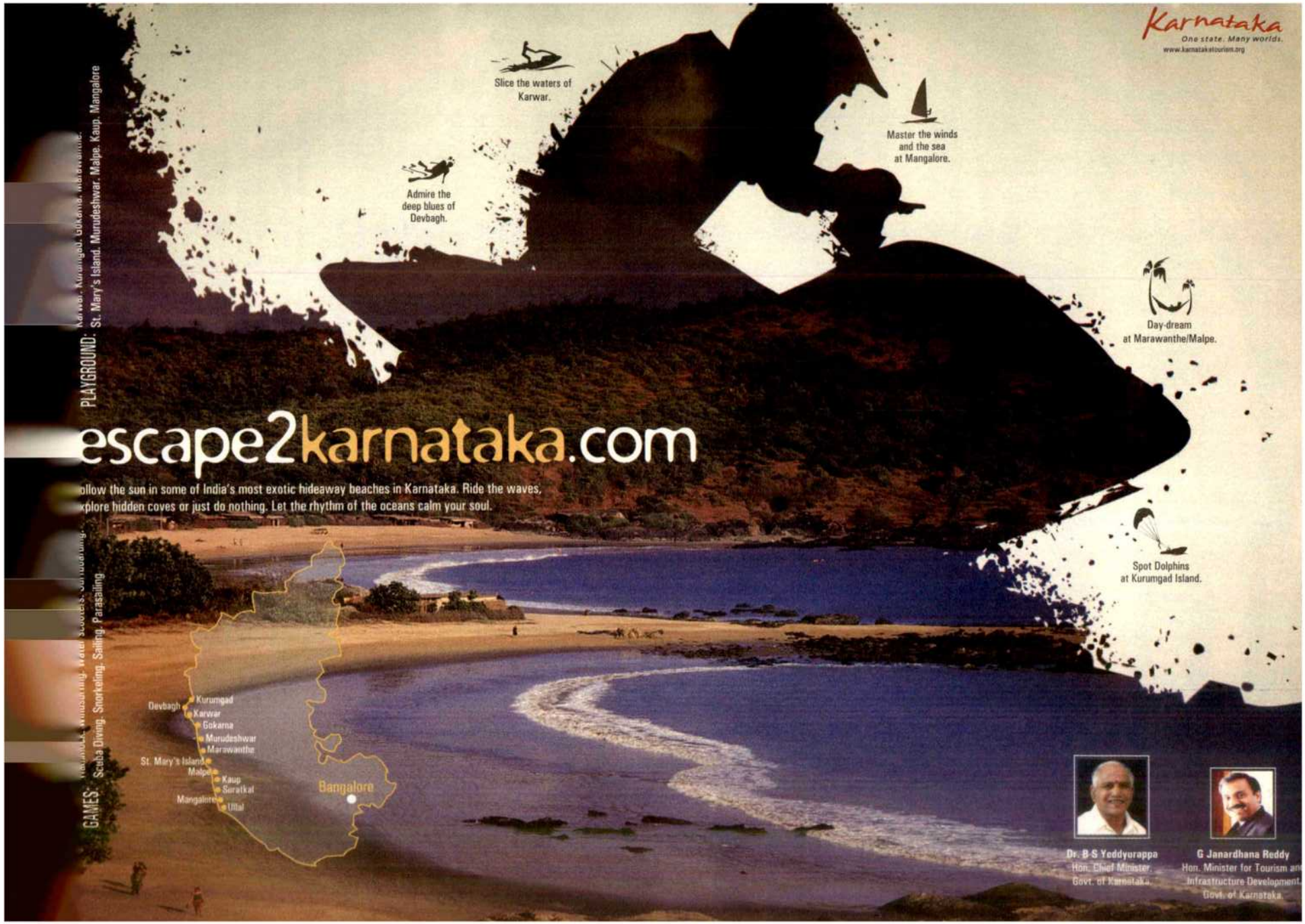
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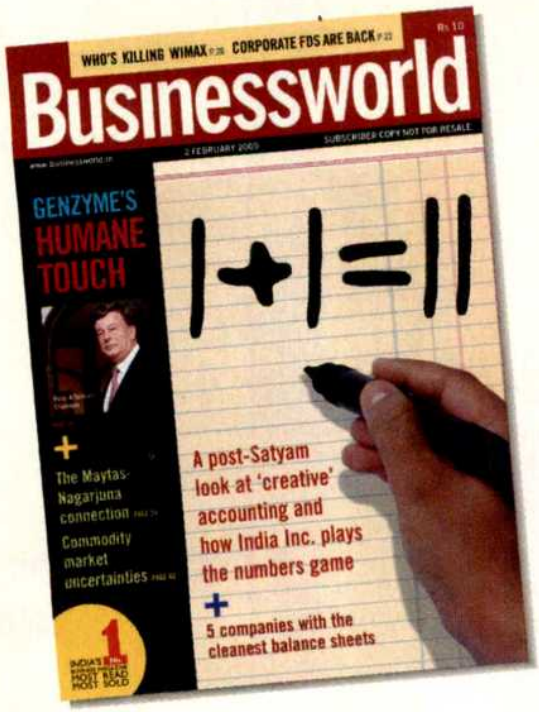

The Rot In The System

Blaming B. Ramalinga Raju and his accomplices entirely for the fraud in the Satyam scandal would be wrong. Malpractices are bound to thrive in an incompetent system. There are not enough stringent policies and regulations in place in the country. It is a shame for the regulators that a company as large as Satyam was able to fudge its accounts year after year, endangering investor interest. The scandal has not only crumpled investors' confidence in India, a repeat of this magnitude can cripple the economy. Asking the companies to declare stake pledging by promoters is a step in the right direction and will make companies more transparent. India is respected for its democracy and technological prowess, and the government should preserve that at all cost.

Shilpa Agarwal Gogoi, New Delhi

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Uphill Task

President Obama will not only be remembered as the first Black president but also as one who assumed office during a crisis ('Agent Of Hope', *BW*, 2 February 2009). Obama has two immediate priorities that he has to address — first, revive the dwindling economy by infusing credibility into the banking and financial system. Second, diffuse the escalating tensions between Israel and Palestine in the Middle-East, and also between India and Pakistan in the subcontinent. The US also needs to change its foreign policy for the sub-continent. There are some positive signs emanating already, in terms of cautioning Pakistan against using terror tactics as a weapon to attain its selfish motives. The world is looking at Obama with cautious optimism, essentially as a peacemaker. It remains to be seen how far will he be able to deliver the goods.

Srinivasan Umashankar, via email

Effective Directives

The importance of media in a democracy cannot be undermined ('Should the government be given wide powers to censor media on security grounds?, *BW*, 2 February 2009). The industry should adopt self-regulatory practices, especially those television news channels which unnecessarily sensationalise events. There may be certain incidents which are crucial to national security and are better not made public. The government should be proactive and come up with directives which will guide the media on coverage of issues of national importance.

M. Kumar, via email

Punish The Perpetrators

Napoleon Bonaparte had once said, "Put a rogue in the limelight and he will act like an honest man" ('Ghost In Balance Sheets', *BW*, 2 February 2009). One can draw an analogy between this statement and the disgraced partners of audit firm Pricewaterhouse-Coopers S. Gopalakrishnan and Srinivas Talluri. They should be barred by ICAI for lifetime and made to undergo severe imprisonment. The fraud perpetrated by them, in connivance with Satyam Computers' founder B. Ramalinga Raju, has led to the uncertainty of more than 40,000 employees of Satyam.

Ashok Jayaram, via email

Letters may have been edited for brevity.

FIESTA LEAVES THE *CITY* FAR BEHIND.

Fiesta - "Best Driver's car in it's class" - Autocar India Sep '08

"One of the most involving driver's cars in India" - TopGear Nov '08

"A great buy if you love driving and worth every rupee" - WhatCar India July '08

"If you are choosing between the two cars to have the perfect ally for spirited motoring, then go for the Fiesta" - Business Standard Motoring Dec '08

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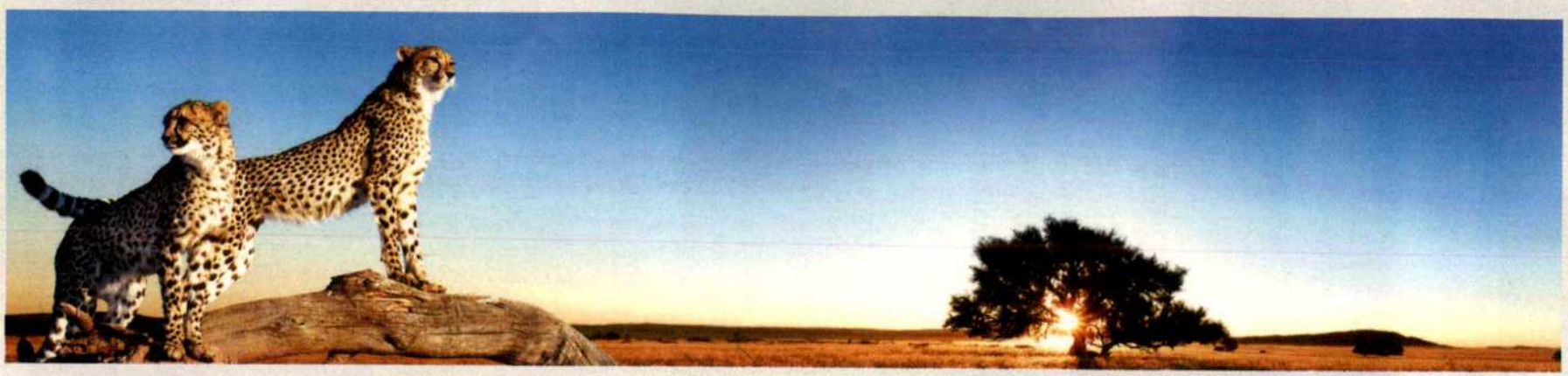

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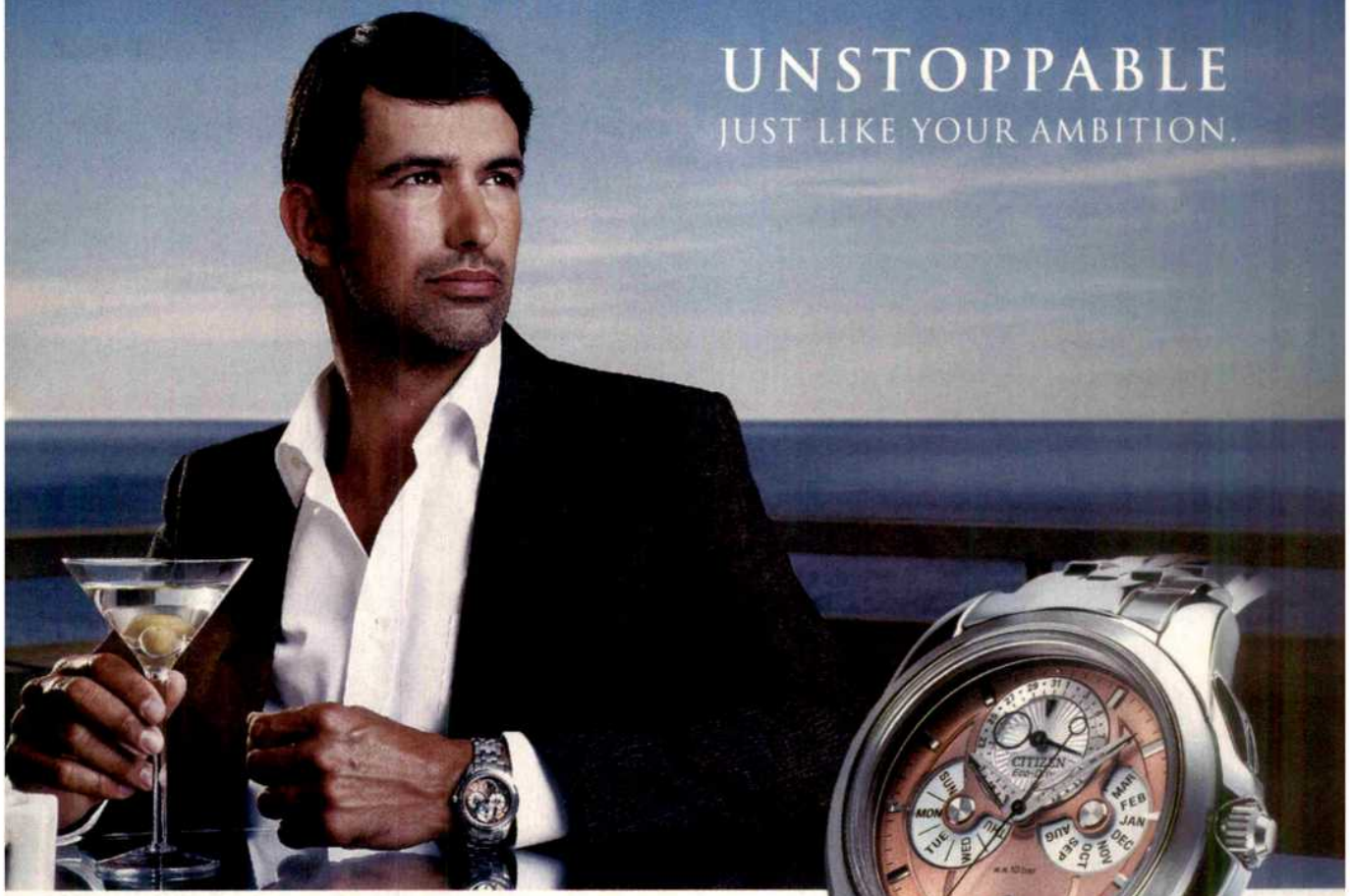

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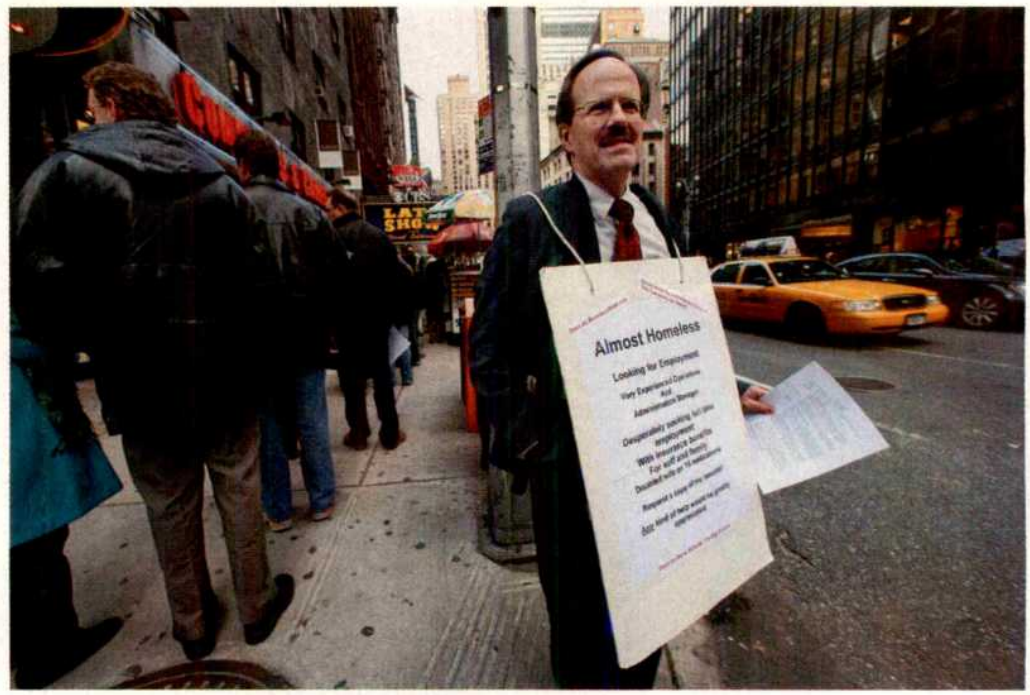
GLOBAL ECONOMY

Depressing Signals

Sad but true, the global economy is going from bad to worse



FEELING THE PINCH: The US has reported the highest number of job losses in history

ON JUST ONE DAY THIS past week — 27 January 2009 — several leading US companies including Pfizer, General Motors, and Caterpillar announced over 70,000 job cuts. In Japan, several companies are cutting back production heavily.

If job losses are hitting historic highs, currencies are hitting historic lows. Last month, the UK pound fell to its lowest level in over three decades. And the Russian central bank used up over $ 200 billion or a third of its reserves in the last six months to shore up its currency.

The rupee, of course, had a see-sew 2008: it first appreciated by over 12 per cent to Rs 39 to the dollar, and then fell by over 20 per cent to just over Rs 50. The list of bad things happening to good companies and people can be endless. Singapore, one of the original Asian Tiger economies, reports that its economy is likely to contract by five per cent this year, compared to an earlier estimate of a two per cent contraction. Despite loads of fiscal stimuli, several interest rate cuts and government money being thrown into the financial system, credit remains frozen. In a downturn, lenders are wary about throwing good money after bad.

The prospects for 2009 are not very bright either. Experts warn that 2009 is likely to be worse than 2008 for the global economy.

For those who still think the recession is far away from India, remember what former US President Harry S. Truman said: "When your neighbour loses his job, it's a recession. When you lose yours, it's a depression."

Our neighbours are already in recession.

Srikanth Srinivas

67 billion dollars. The stimulus plan approved by German Chancellor Angela Merkel's Cabinet.

QUOTE OF THE WEEK **"The economy will always be a centre-piece of our relationship with China."**

— US Secretary of State Hillary Rodham Clinton

PHARMACEUTICALS

Go Shopping

This is the best time for Indian drug makers to go in for global acquisitions

A CONSOLIDATION seems underway in the global drug industry, which may throw up more acquisition opportunities for Indian generic drug makers. The acquisition of New-Jersey headquartered Wyeth by Pfizer, the world's largest pharmaceutical firm, for $68 billion will pave the way for significant cost rationalisation of the two firms' manufacturing capabilities.

Acquiring manufacturing plants in the US and in Europe can help Indian pharma firms reinforce their contract manufacturing businesses — a market that is expected to reach $900 million in India by 2010 according to the Boston Consulting group — and expand their client base worldwide.

Many Indian firms have already managed to do that. In June 2006, Piramal Healthcare acquired Pfizer's Morpeth facility in UK that came with a supply agreement up till November 2011 with potential revenues of over $350 million, for $50 million. In June 2007, Shasun acquired Rhodia's custom synthesis and contract manufacturing business in the UK.

Last month, Pfizer announced the sale of its Loughbeg site in Ireland to Hovione, a Portuguese pharmaceutical company.

And one could expect many more such deals in the next few months.

Noemie Bisserbe

BLOOMBERG

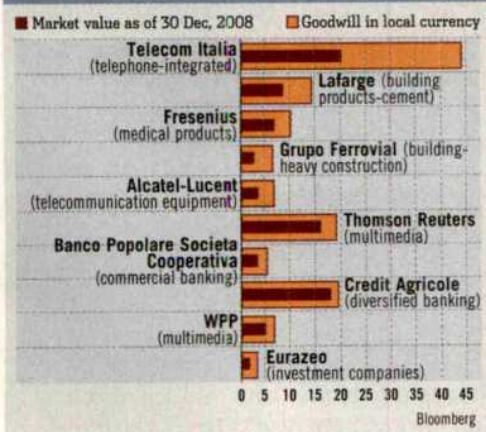
WIN-WIN DEAL: Bernard Poussot, CEO of Wyeth (right), and Jeffrey Kindler, CEO of Pfizer Inc.

Global **NEWS**

Pressure is mounting on **Frank Bainimarama**, who took control of Fiji in a military coup in 2006, to restore democracy. Leaders of 16 neighbouring South Pacific nations held a meeting in Papua New Guinea on 27 January to demand that Fiji should hold elections by the end of 2009. However, Bainimarama snubbed the ultimatum as unlawful.

COST OF GOODWILL

European companies may be forced to take writedowns totalling a record $214 billion after overpaying during this decade's takeover binge, saddling investors with more losses after the worst year for stocks since 1937.



AUTOMOBILES

CHINA'S GREEN SIGNAL

CHINA SEEMS TO HAVE FOUND THE ideal solution to boost its slowing auto industry, which is expected to grow 6.7 per cent this year as against 21 per cent in 2007. From now on, bus, taxi and postal fleets will be encouraged to buy vehicles powered by hybrid, electric or fuel cell engines and will be subsidised by the Chinese government. The scheme will be piloted in 13 cities. China hopes that this will not only boost sales of automakers but also prepare them to compete in the global clean-energy car market.

Indian companies could certainly use such a leg-up. The global clean tech market is estimated at $3 trillion by 2050, according to consulting firm KPMG. In addition to boosting industrial growth, India's government could also save significant revenues with such a law, says Shantanu Roy of Green Purchasing Network India. "Over its life-time, the average clean-tech product is also far cheaper to operate than an old-tech one," he says.

Pierre Fitter

AVALANCHE OF BAD NEWS

Barbed wire protects a hotel that housed delegates of of the annual meeting of the World Economic Forum (WEF), which will take place from 28 January to 1 February 2009 in Davos, Switzerland. The avalanche of bad news in recent months has turned this year's WEF into one of most gloomy held since the elite meetings started four decades ago.

INFORMATION TECHNOLOGY

Online Crooks

INTERNET ATTACKS ARE getting sophisticated. From using phishing techniques to obtain information on bank accounts or credit card numbers, now hackers are using popular websites such as Google, Ebay, Facebook, Yahoo, to steal information, says a new study by San Diego-based Websense Security Labs, which specialises in online security.

According to the research, 70 per cent of the top 100 sites either host malicious content or contain a masked redirect to from legitimate sites to malicious sites that steal credit card, bank account numbers or corporate information. Moreover, 39 per cent of malicious Web attacks include data-stealing, demonstrating that attackers are after corporate information and data.

The 1.46-billion global internet users had better watch out.

Venkatesh Ganesh

THINK BEFORE YOU CLICK: 70 per cent of popular websites may have malicious content

REAL ESTATE

BIVASH BANERJEE

Hot property

IT SEEMS THE EFFECTS OF GLOBAL RECESSION haven't reached some parts of the world. A 133 sq. ft shop in New Delhi, next to the Safdarjung Hospital gate and opposite to the All India Institute of Medical Sciences, has reportedly been auctioned for a monthly rental of a whopping Rs 12 lakh. This works out to about Rs 9,000 per month — easily one of the highest in the world and 10 times Delhi rates. The property, Shop No. 3, is owned by New Delhi Municipal Council.

Reality Check

The US could be poorer by $20 trillion on paper, due to the massive value erosion in real estate and stockmarkets, according to a report by Grantham, Mayo, Van Otterloo Company.

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BRAND BIHAR TOURISM

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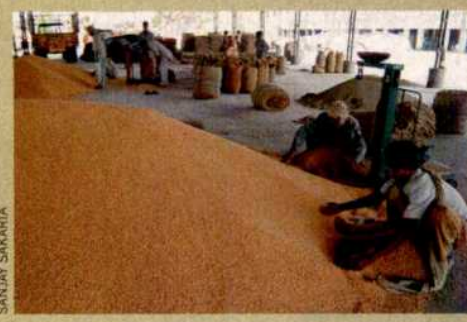
India's Largest Read Daily

Source: IRS 2008 R2

AGRICULTURE

DISCORDANT NOTES


SANJAY SAKARIA

WITH ELECTIONS looming on the horizon, the contradictions within the United Progressive Alliance (UPA) seem to be coming out in the open.

Last week, Agriculture Minister Sharad Pawar had said that the prevailing ban on wheat exports might be lifted in March. But now Commerce Secretary G.K. Pillai says that the government will not put an end to exports of rice and wheat until the elections are over. "We are in an election year and no one would like to see inflation surging again," says Pillai.

India is the second-biggest wheat and rice producer in the world. The country is forecast to harvest record crops of wheat and rice this year after the highest-ever grain prices last year encouraged growers to increase planting.

BW Bureau

TOP 10 LISTINGS

BEST COMPANIES TO WORK FOR

1. NetApp
2. Edward Jones
3. Boston Consulting Group
4. Google
5. Wegmans Food Markets
6. Cisco Systems
7. Genentech
8. Methodist Hospital System
9. Goldman Sachs
10. Nugget Market

Source: Fortune

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WAR CRIMES

Israel's Deadly Weapons

Israel admits to using banned weapons in Gaza, but is unapologetic

AP

THE AFTERMATH: Israel's onslaught on Gaza caused extensive destruction

NO COUNTRY EASILY admits to war crimes. So why did Israel admit that it used white phosphorous weapons in its recent offensive in Gaza?

"Yes, phosphorus was used but not in any illegal manner," Israel's foreign ministry spokesman Yigal Palmor has been quoted as saying. While the use of white phosphorous weapons are not illegal if used as smokescreens in battles, using the chemical in civilian areas is banned.

The use of banned weapons, if proven, can constitute a war crime. But since Israel is not party to the Convention on Certain Conventional Weapons that prohibits incendiary weapons such as white phosphorous, Israel cannot be punished. Also, Israel is not a signatory to the treaty that created the International Court of Justice in The Hague, so the Israelis cannot be tried there either.

According to latest reports, the Israeli army used Dense Inert Metal Explosive, an experimental type of explosive that may have serious biological effects. Israel, however, keeps on denying the reports.

The developments have drawn sharp reactions from all over, especially from European countries such as France and the UK. While French President Nicolas Sarkozy has ordered the deployment of a frigate to international waters off Gaza to patrol against arms smuggling into the territory, British Prime Minister Gordon Brown has called for an immediate ceasefire in Gaza, after a rare split with America at the United Nations. But the silence from the US is quite deafening.

Noemie Bisserbe

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Rural bandwidth

The Department of Telecommunications and Bharat Sanchar Nigam (BSNL) have signed a deal to offer broadband to rural areas. As per the agreement, BSNL will provide wireless broadband at 29,000 rural exchanges. Each exchange will have 31 connections and one kiosk for public use. The implementation of the entire project is expected to be completed by 2011.

TRIBHUWAN SHARMA

Changing tack

Norway-based mobile operator Telenor has scrapped its proposed $1.8-billion rights offer to fund its acquisition of 60 per cent stake in Unitech Wireless. The Nordic company will now buy into the Indian telecom company with cash and debt.

Intellectual property

Bangalore-based biotechnology major Avesthagen is tying up with global players to market its intellectual property rights products in diabetic therapeutic areas in the overseas market. "Our diabetic business is valued at $470 million, we are in talks for the tie-up with leading global players for marketing the product in overseas market," says Villoo Morawala Patel, founder chairman and managing director of Avesthagen.

BLOOMBERG

Cost cutting

Tata Steel-owned Anglo-Dutch steel maker Corus is cutting workforce by 3,500. The move is in line with a series of cost-cutting measures adopted by the company to surmount the global economic recession. These measures will fetch Corus "annual improvements in operating profit of more than $276 million pounds", the company says in a statement.

Value addition

Nokia Corporation and HCL Infosystems have formed a joint venture to sell mobile value-added services and entertainment content. The joint venture, which is subject to customary regulatory approvals, is expected to take off later this year. The joint venture will be primarily engaged in selling value added services for mobile services.

Writing a new deal

French stationery firm BIC has picked up a 40 per cent stake in India's largest writing instruments company, Cello, for $160 million. According to the

TRIBHUWAN SHARMA

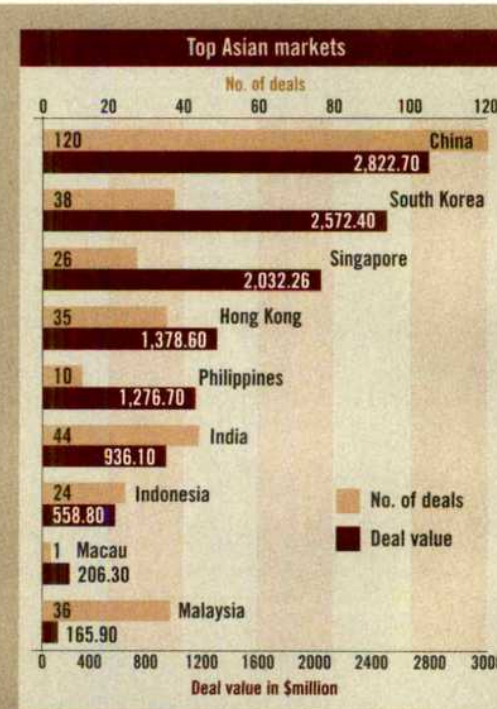
BW-THOMSON REUTERS M&A DEAL TRACKER

$12.15 billion The Asian M&A market saw 374 deals worth $12.15 billion as on 26 January 2009. China was the largest market in the region with 120 deals worth $2.82 billion.

Top Indian deals

TARGET	NATION	ACQUIRER	NATION	DEAL SIZE ($M)
S. Tel	India	Undisclosed investor	Bahrain	225.00
Cello Pens	India	BIC SA	France	160.80
Satyam Computer Services	India	Larsen & Toubro	India	35.90
Mangalam Cement	India	Mangalam Cement*	India	4.40
United Seamless Tubular	India	Oil Country Tubular	India	4.10
Voltas-Chemicals Trading Bus	India	DKSH India	India#	4.10
Grob Tea Co.	India	Undisclosed investor	India	1.80
Bhoruka Steel & Services	India	Bhoruka Steel Holdings	India	1.20
HOV Services	India	HOV Services*	India	1.00
Austin Engineering Co.	India	Austin Engineering Co.*	India	0.60

Figures for 11-24 January 2009 *Buyback #Ultimate parent nation is Switzerland



Figures for 11-26 January 2009

agreement, BIC has the option of increasing its stake in the Indian company to 55 per cent by 2013. This will give the French firm a footprint in the Indian market. The deal is part of BIC's strategy to expand its stationery business to new geographies, the company says in a statement.

BLOOMBERG

Credit Agricole will hold 70 per cent and Societe Generale will have 30 per cent in the new entity.

French connection

Credit Agricole and Societe Generale, France's second- and third-largest banks, have signed an agreement to merge large parts of their asset management operations. The banks will create a joint venture with about $828.4 billion in assets under management. As per the deal,

New footprints

Oman State General Reserve Fund has bought a 30 per cent stake in Corporate Commercial Bank of Bulgaria from the Bulgarian bank's majority owner Bromak. The Omani fund has bought about 1.8 million shares to the Luxemburg-based Bulgarian Acquisition Company II, owned by the fund, which is one of the key investment institutions of the government of the Sultan of Oman. "The planned deal will allow the bank to become a leader in the corporate lending in Bulgaria and offer a broad range of products to its clients," the bank says in a filing with the Bulgarian Stock Exchange.

Wholesome service

France Telecom, which holds licences for national and international long-distance services in India, has obtained another licence to provide internet services in India. Currently, France Telecom's licences in India are held through its wholly-owned subsidiary Orange Business Services. The company plans to consolidate its services in India.

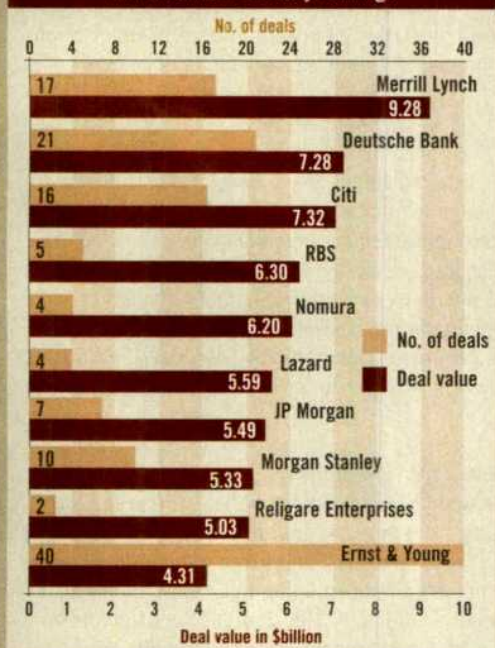
BLOOMBERG

AP

Tightening purse strings

Yahoo! Inc. has announced a freeze on salary hikes for its employees in 2009. This is part of a series of cost-cutting measures initiated by Carol Bartz, the new CEO of the Sunnyvale-based company. Yahoo! has lost market share in search advertising while display advertising, where it is a market leader, has been badly hit by the global recession.

India financial advisory rankings



Figures for 1 January 2008-26 January 2009

Top Asian deals

TARGET	NATION	ACQUIRER	NATION	DEAL SIZE ($M)
KTF Co.	South Korea	KT Corp.	South Korea	1,809.99
United Industrial Corp.	Singapore	UOL Equity Investments	Singapore	1,615.48
San Miguel Brewery Inc.	Philippines	Kirin Holdings Co.	Japan	1,241.27
Jiun Tai Corp.	Hong Kong	Welltend Technology Corp.	Taiwan	730.00
Tsingtao Brewery Co.	China	Asahi Breweries	Japan	666.98
Singapore Land	Singapore	UOL Equity Investments	Singapore	377.60
Fujian Huaying Display Tech Co.	China	Mindong Electric (Group) Co.	China	399.73
C&D Real Estate Corp.	China	Xiamen C&D Inc.	China	301.41
S. Tel	India	Undisclosed investor	Bahrain	225.00
Mandarin Oriental	Macau	STDM	Macau	206.25

Figures for 11-24 January 2009

Figures are based on ultimate parentage, meaning that an M&A deal carried out by a unit abroad will still be counted as that of the home country, provided the overseas unit is majority owned by the parent. Deal value is the total value of the consideration paid by the acquirer, excluding fees and expenses but including liabilities assumed. If the acquirer is buying 100 per cent of a non-financial company from a currently-held percentage of less than 50 per cent, deal value is calculated by subtracting the value of any liabilities assumed by the acquirer and adding the target's net debt. US dollar equivalents are computed using the exchange rate at the time of the deal's announced date. League tables are credited proportionately among financial advisors involved in a deal whether the firm participated as target or acquirer financial advisor.

Log on to www.businessworld.in for the complete list

Quick Take

Will President Obama be able to bring confidence back into investment markets?

We asked... Pratish Devadoss, MD, VGN Developers; Dipen Shah, vice-president, private client group research, Kotak Securities; Raja Gopalakrishnan, senior vice-president, global solutions, and MD, India Fidelity National Information Services; K. Ilango, president, Coimbatore District Small Industries Association (CODISSIA) ; Kunal Banerjee, president, ICWAI; Mukesh Dedhia, director in Ghalla Bhansali Stock Brokers; Waqar Naqvi, CEO, Taurus MF; Ajay Trehan, CEO, AuthBridge Research Services; Kapil Aggarwal, director, commercial lines, Optima Insurance Brokers; Rahul Aggarwal, CEO, www.Click2insure.in

"Maybe. President Obama has assured that his focus will be on investment and infrastructure."

Dipen Shah, VP, private client group research, Kotak Securities

"Enterprise governance drive by Obama will lift the investment climate globally."

Kunal Banerjee, president, ICWAI

"Obama will not be able to bring confidence immediately though he seems to have good ideas."

K. Ilango, president, CODISSIA

Yes 40%

YES BECAUSE: President Obama has assured that his focus will be on investments, infrastructure and the jobs market. This is a positive as this addresses the core of the economy. However, the extent of effectiveness will depend largely on the finer details of the $850 billion stimulus plan and how efficiently and quickly it is implemented. There can be some initiatives which may be negative from the stock market perspective in the short term but effective in the longer term for the economy. He is expected to focus on accountability and transparency in capital markets. Expectations are high from Obama and there is no doubt that he will go all out to bring back confidence into the investment markets.

No 10%

NO BECAUSE: The issues surrounding the economic slump are so deep that it will take a considerable amount of time to put things in order. Though his initial actions — economic stimulus package worth almost $850 billion — are headed in the right direction President Obama will not be able to bring confidence back in the markets anytime soon. Considering that the slowdown is spreading to all sectors, consumer spending is lowest in decades and banks are wary of lending, the US president alone cannot resolve the issues. The bailouts are happening from taxpayers' money, which will lead fiscal deficit to swell. Obama has made some sensible comments during his first few days in office but it remains to be seen what real measures his administration will take to revive sentiments globally.

Maybe 50%

MAYBE BECAUSE: His enterprise governance drive will lift the investment climate globally. The manner in which Obama spoke about wide-ranging changes, including stricter federal rules for hedge funds, credit rating agencies and mortgage brokers, and greater oversight of the complex financial instruments that contributed to the economic crisis, brings rays of hope for investors the world over. Although investment markets may see initial gains, sustaining this momentum will depend on many factors, the primary one being consumer confidence. The stimulus package offered by Obama is more about infrastructure spending and tax cuts, which might not have a big effect on the investment markets.

Reading The Tea Leaves

by ashok v. desai

IT WAS, IN A SENSE, TOO EASY TO COMMENT ON economic policy while P. Chidambaram was in charge. He was articulate, and he usually made so many mistakes that an entire curtain of comment could be hung on the pegs he provided. But what is said is not policy; it is the policy-maker's understanding of his policy. The distinction struck me when the Prime Minister took over the Finance Ministry. When he spoke, he lifted entire paragraphs from Chidambaram's thought processes, so initially he was an easy target. Then he stopped speaking. But policy does not cease when words cease to flow. Policy processes go on independently of words. Economic events unfold and are influenced by policy; it is this sequence of events that matters, not their articulation by policy-makers.

IT kept India booming for so long; now we need a new, innovative industry to boost the economy

While the Prime Minister recuperates, the economy is undergoing a rapid transformation. It is important to understand what is happening if remedial action is to be taken. Even if such action is not taken, clarity of analysis is always worth striving for. In particular, the general optimism that pervades official analyses — for instance, the latest report of Prime Minister's Economic Advisory Council — is belied by easily available statistics, and must be questioned.

This optimism implicitly relies a good deal on past figures of GDP growth. These figures are grossly out of date; the latest figures we have are for July-September. Second, they are insensitive. The GDP is an aggregate of many figures; random variations in them tend to cancel one another. And many of its components are extremely approximate; some of them are close to guesses. So, GDP figures seldom yield clear conclusions, and they never do so in time for policymaking.

The most sensitive indices of economic fluctuations are employment, unemployment and incomes. We do not have unemployment or payroll figures in India. Income figures can be inferred from direct and indirect tax collections. Central tax collections till November were Rs 2.53 trillion — 15 per cent up from last year's Rs 2.2 trillion. Last year they were 24 per cent up on the previous year. Their growth has slowed down.

A proxy for economic activity is payments. Bank transfers (including cheques) were rising till September. Then in October-November 2008, they came down to Rs 19.3 trillion from Rs 22.5 trillion for the same months in 2008 — they were 14 per cent lower. This gives us a closer idea of timing of the downturn. Another indicator is the volume of demand deposits, which came down from Rs 5.1 billion to Rs 4.5 billion from the end of September to November. Imports show a similar decline — from Rs 2.52 trillion in July-August to Rs 2.24 trillion in September-October.

So, it is pretty certain that growth is not just lower, but that it is declining. The clearest signs of decline emerge in the second half of 2008 — around September. Most official figures do not capture them because they are too outdated. Most analyses do not detect them because they rely on outdated figures. They will recognise the downturn four months from now, when GDP figures for the last quarter of 2008 come out; even then they may miss it because GDP figures as calculated in this country are so approximate and unresponsive to immediate circumstances.

By the middle of 2009, the consensus that at present predicts a short and shallow downturn till the second half of 2009 will finally die down, and will be replaced by another forecast, probably one of a slightly longer downturn. By that time, another government will be in place. It may be a Congress government, but just now it looks unlikely to be headed by Manmohan Singh. So, it will not feel itself committed to defend this government's record and to continue its policies. It will probably settle for more reflation, and more government expenditure.

These are supposed to be Keynesian remedies, and in a sense they are; they come out of Keynes's general theory. He did not live beyond World War II, and hence did not get the time either to evaluate his own theory or to connect it to growth theory. Keynesian demand stimulus certainly increases incomes and employment in an economy with surplus capacity. But it does so only while it is being applied; its influence is temporary. More long-lasting stimulus can only come if the investment begins to rise; and it will rise only in pursuit of profits. A continuous increase in profits can come only from a fall in costs or development of more profitable products — in a word, from innovation. The Indian economy is slowing down because there's no innovation. The IT industry is coming to an end of its long boom. We need to find another.

The author is Consultant Editor of *Businessworld*.
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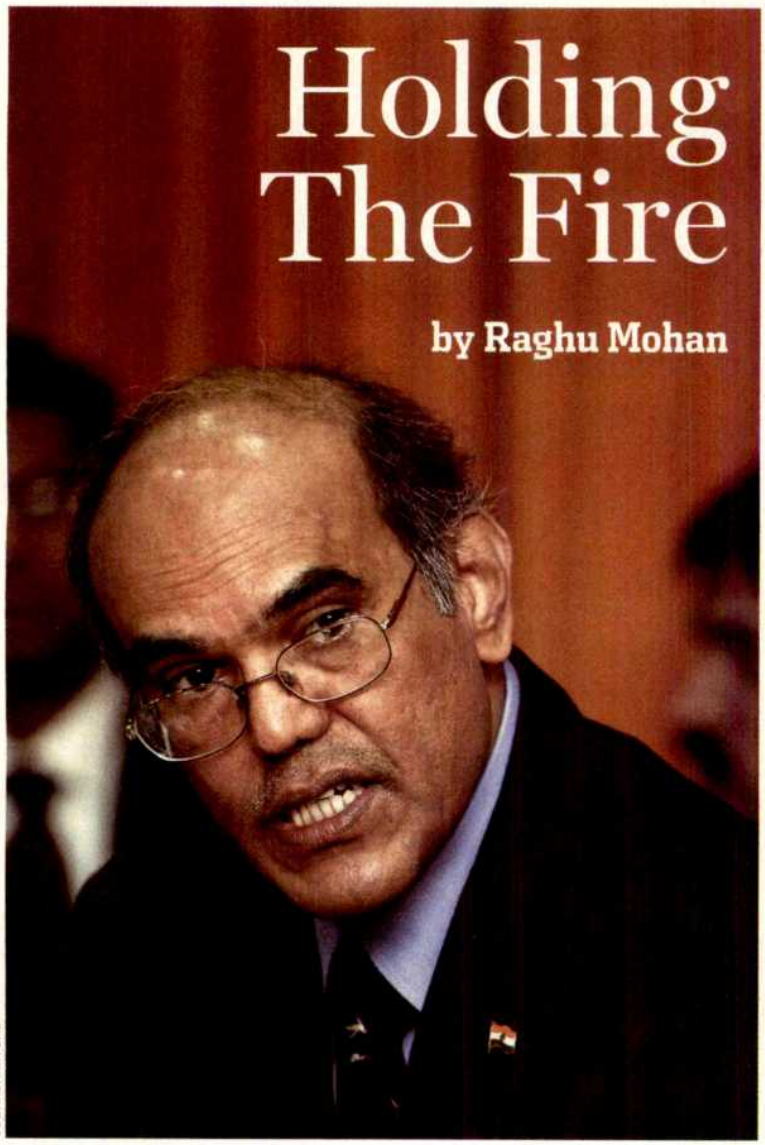
Holding The Fire

by Raghu Mohan



SUBHABRATA DAS

STATUS QUO: RBI Governor D. Subba Rao has kept all key rates unchanged

If the economy worsens, RBI won't hesitate to cut rates

THE RESERVE BANK OF INDIA (RBI) DID NOT FIRE ITS guns in its policy review, the last before the vote on account on 16 February and the country's formal gear shift to poll mode. The anticipated cuts in key rates did not come through as the central bank is soaking in the effect of past measures; and waiting for more bad news.

Be rest assured though that there will be a fresh round of rate cuts — Pranab Mukherjee who is currently holding charge of the finance ministry — is set to meet state-run bankers on 2 February and if past record is anything to go by, banks will be asked to drop interest rates.

Says Tushar Poddar at Goldman Sachs: "One can still expect rate cuts before the end of the financial year. The RBI wants to assess the impact of the previous rate cuts. We think that more immediate action is necessary given the long lags with which monetary policy influences lending rates and overall activity, rather than wait for activity to deteriorate further."

It is a view seconded by Neeraj Swaroop, Standard Chartered Bank's CEO for India and South-Asia. "In my view, the RBI has correctly highlighted the need to ensure a steady flow of credit, which must flow towards investments and consumption. Going forward, we can expect the central bank to retain a dovish stance, lowering interest rates and taking steps to ensure the banking system has adequate liquidity."

The year year-on-year growth in non-food bank credit at 23.9 per cent as on 2 January, 2009 is higher than the 22 per cent growth as on 4 January 2008. The increase in total flow of resources from the banking sector to the commercial sector — non-food bank credit together with investments in shares, bonds, debentures and commercial papers was also higher at 23.4 per cent as compared with 21.7 per cent a year ago. The RBI concedes that despite this expansion in bank credit, "...there was a perception of lack of credit availability. This could be attributed to reduced flow of funds from non-bank sources, notably the capital market and external commercial borrowings."

Plenty Of Fear, No Greed

Therein lies the problem. We do not live in a world where banks can step in seamlessly to fill in the credit gaps left by the withdrawal of supplier's credit, buyer's credit or other kinds of trade finance that have supplemented the working capital needs of Indian industry. Commercial banks are not the lenders of last resort, even if Indian industry expects them to be.

As in developed markets — and the Satyam fiasco is the latest add-on to the myriad fears and risks — Indian banks' perception of customer credit risk is higher than it ever was: credit spreads exceed 10 per cent for even the best borrowers. So while they may have the liquidity, banks do not have the inclination to lend. Can interest rate cuts change that behaviour? Unlikely.

Citibank analyst Aditya Narian is of the view that while credit growth will end the year at 21 per cent levels, the story down the line will be a tough one — credit growth is expected to slow down to 16 per cent. And with just a watering hole — banks — left for India Inc, it is anybody's guess as to how soft rates will get. And it is not just an issue of this "perception lack of credit". Successive cuts in key rates — cash reserve ratio and reverse repos — have seen interest rates dip by nearly 200 basis points.

Prime lending rates of banks now hover about 12.5 per cent; prime borrowers get funds a good 400 basis points higher than this. Inter-

est rate response to monetary policy easing has been faster in the money and bond markets as compared to the credit market because of several structural factors. Banks have to contend with administered interest rates on small savings — they compete with bank deposits; banks will lose deposits if it falls below 8 per cent.

The RBI's analysis of monetary conditions points out that a substantial portion of deposits has been mobilised at fixed interest rates with an asymmetric contractual relationship. During the upturn of the interest rate cycle, depositors have the flexibility to prematurely "break" their existing deposits and re-deposit at higher interest rates.

However during the interest rate downturn, banks have to necessarily carry these deposits at higher rates of interest till their maturity. The other headache is that banks fight for wholesale deposits and this leads to an increase in the cost of funds. One year bank deposit rates are still at eight per cent, marginally lower from the October 2008 levels of 8.75 per cent.

According to Abheek Barua, chief economist at HDFC Bank, "the fact that the transmission mechanism has been less than efficient is hardly a case against more monetary easing. In fact, the only way to induce banks to drop lending rates is to send persistent signals that the cost of funds is declining. Passively waiting for banks to fall in line is not, in our opinion, an option".

So what can be expected in the days ahead? One of the few key factors that will have to be watched is the rabi crop — a good harvest will mean more money for rural India.

Poddar of Goldman Sachs is of the view that "800 million consumers, far removed from the credit crunch; unleveraged; benefiting from a decent agricultural crop; and substantial government assistance by way of an agricultural loan waiver, employment guarantees, and large investments in rural infrastructure, will be a key driver of growth in 2009". Election related spends is another.

"Overall, the policy statement maintains a soft tone signaling that rates may be adjusted lower going forward. We expect the RBI to cut rates by another 100 bps at least in the next 3-6 months," says Madan Menon, managing director and country head for global banking and markets at Royal Bank of Scotland.

HDFC Bank's Barua says that it appears that the RBI wishes to be reactive in monetary management — to wait for an adverse development (the announcement of additional government borrowings for instance) to cut rates or reserve ratios further. "In fact, most of its recent monetary action has been outside the policy. This effectively reduces the role of the quarterly monetary policy and makes it a bit of a 'non-event'." So await some more bad news on the economy — then the RBI may cut rates.

raghu.mohan@abp.in

ANNUAL SECTORAL FLOW OF CREDIT

The year-on-year increase in bank credit to industry as of December 2008 was sharply higher than that in the previous year

	As on 21 Dec. 2007 (y-o-y)		As on 19 Dec. 2008 (y-o-y)	
Sector	Amount (Rs crore)	Variations (%)	Amount (Rs crore)	Variations (%)
Agriculture	38,139	19.3	53,612	22.7
Industry	1,56,192	24.9	2,36,064	30.2
Real estate	13,621	35.8	24,827	48.1
Housing	31,780	14.6	21,989	8.8
NBFCs	22,953	59.6	24,668	40.1
Overall credit	3,54,802	21.8	4,90,199	24.8

FLOW OF FINANCIAL RESOURCES

During 2008-09, the total flow of resources to the commercial sector has been low

Item	2007-08#	2008-09^
From banks	2,24,921	2,93,243
From other sources*	2,74,563	1,91,470
Total resources	4,99,484	4,84,713

Figures are in Rs crore. *Includes borrowings from financial institutions and NBFCs as well as resources mobilised from the capital market and by way of ECBs, FCCBs, ADRs/GDRs, FDI and short-term credit as per the latest available data, adjusted for double counting. #Up to 4 Jan. 2008 ^Up to 2 Jan. 2009

Source: RBI

Microsoft

Business Dilemma #5

Can we improve customer response time without incurring additional spends?

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Rebels With A Cause

by Gurbir Singh

IFC's rebel shareholders could force a compromise

HAVE SATYAM SHAREHOLDERS, AFTER THEY FORCED Ramalinga Raju to scuttle the Maytas Infrastructure takeover, triggered a new phase of shareholder activism? Under fire this time are two directors of Network18 Group's film fund Indian Film Company (IFC), Raghav Bahl and Alok Verma. IFC had a dream start — listing on London Stock Exchange's Alternative Investment Market in mid-2007 and raising £53 million (about Rs 400 crore). The company through its India arm Studio 18 produced and distributed a string of hits — *Jab We Met*, *Welcome*, *Singh is Kinng*, and *Ghajini*.

Today IFC, with its share price eroded to one-fourth of its listing price at 25 pence, is facing an open revolt by two London-based hedge funds, Altima India Master Fund and the Kelusa Master Fund, representing 21 per cent of its equity holding. Altima has forced an extraordinary general meeting (EGM) in Guernsey on 5 February to replace Bahl and Verma with their nominees Atul Sethia and Ashish Vyas on the board. The fund claims that it has the backing of 31 per cent of the shareholders.

The rebel resolution is likely to be defeated with Bahl and the Network18 Group claiming they have mustered nearly 70 per cent of the vote. However, if the purpose of the IFC Requisition Group (IFCRG) was to extract concessions, it seems to have succeeded in part. The IFC board is expected to concede to its demand for the induction of a director representing the IFCRG and an additional independent director. An observer closely monitoring the events says, "If this goes through the EGM is likely to be called off."

The requisitionists in their 16 January communication also said that despite "a number of movies which have achieved impressive box office performance, it has not translated into returns that are acceptable to shareholders".

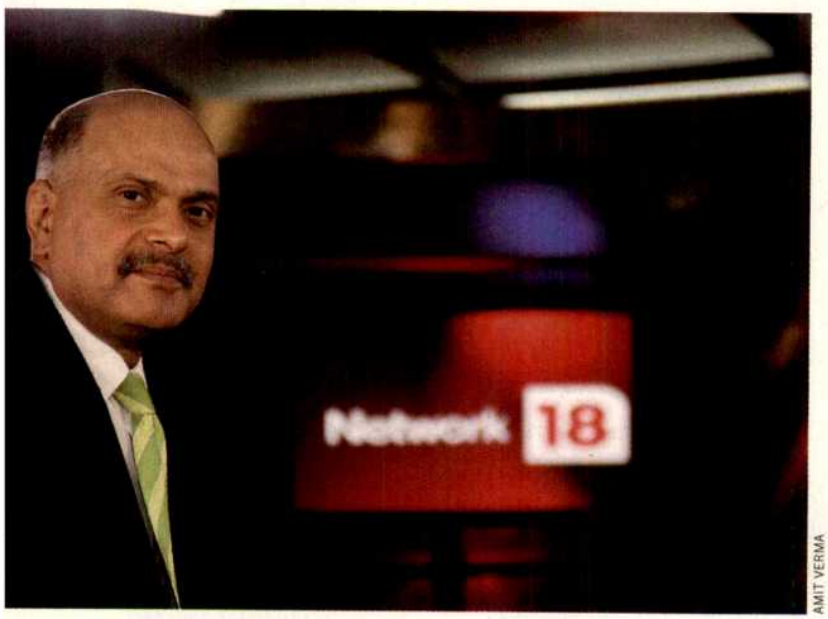
"In the first 18 months of operation, IFC had a net profit of £3.4 million on initial equity capital of £52.8 million," says the rebel flyer. The IFC board has also been accused of lacking transparency and not providing necessary information to assess IFC's performance and prospects.

In reply, IFC representative Alex Walters of Pelham PR said: "These hedge funds have taken an aggressive stance as they are facing redemption pressures from their investors." Walters also says most media stocks in England were trading at a discount and it had little to do with the performance of the company.

A letter addressed to shareholders by IFC Chairman Shyam Benegal on 12 January says the main grouse of the Altima Fund was that the company had not conceded to the demand for "a share buy-back programme or to distribute any excess cash it may have as a special dividends." Appealing to shareholders to defeat the "oust-Bahl" resolutions, Benegal says that IFC's performance has been on target with 30 film projects involving an investment of £58.97 million. Interestingly, the rebels deny Benegal's charge of wanting to take over the company and insist they only want a review of the performance and financial position of the company. Altima Master India Fund has increased its holding from 1.82 per cent in mid-June 2007 to 14.4 per cent over the next year, and is using its substantial holding to demand answers.

"The revenues of recent films like *Ghajini* (Rs 110 crore) have not been booked, while recurring revenues from satellite and DVD rights have still to be accounted for," says Sandeep Bhargava, CEO, Studio18. The low net profit (£1.4 million from film business) is because only *Jab We Met* and *Welcome* — both released in 2007 — have been accounted for."

It seems the fight is not about whether IFC has performed or not; it is about whether it has performed exceptionally well or not.



AMIT VERMA

IN THE EYE OF A STORM: Rebels want to oust Raghav Bahl from the IFC board

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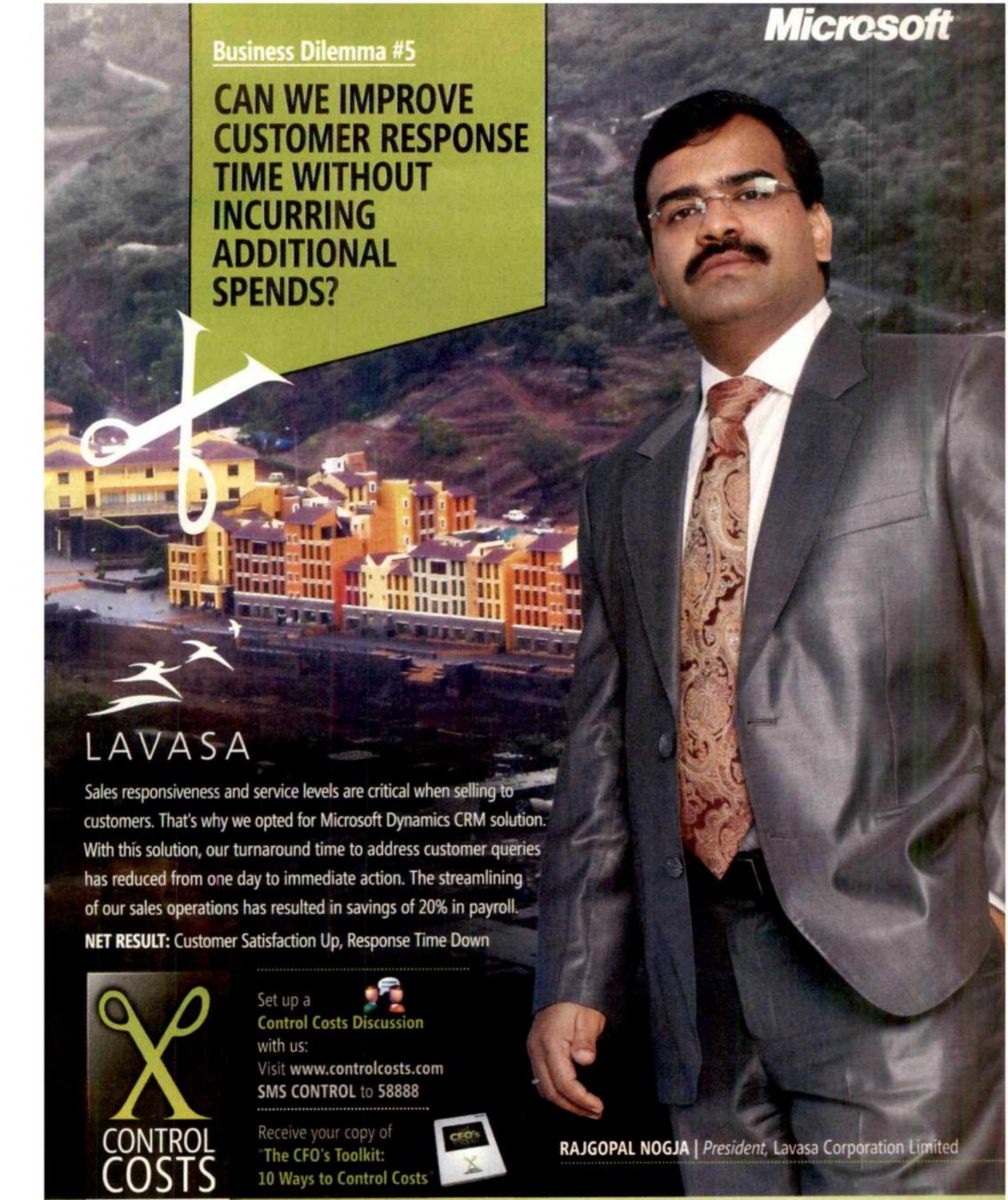
Microsoft

Business Dilemma #5

CAN WE IMPROVE CUSTOMER RESPONSE TIME WITHOUT INCURRING ADDITIONAL SPENDS?



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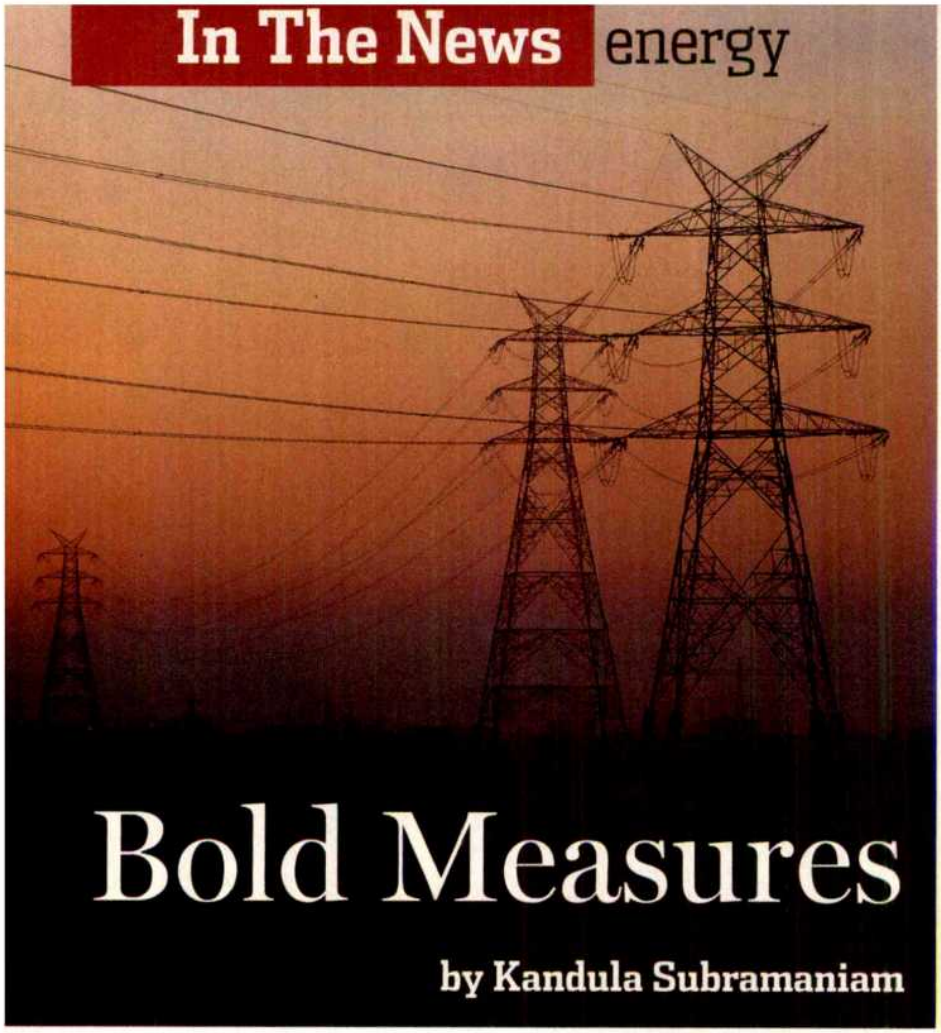

Bold Measures

by Kandula Subramaniam

BIVASH BANERJEE

The new power tariff rules may attract more investments

LAST WEEK, THE POWER REGULATOR, CENTRAL Electricity Regulatory Commission (CERC) changed the way power generation tariffs — for both thermal and hydro power — are calculated. The new tariff regulations for the next five years have some very bold initiatives that may help companies but can hurt consumers.

Corporates investing in power projects will have an additional incentive to park their money in the sector as they can get up to 2 per cent higher return on equity (RoE). The RoE for power plants has been hiked from 14 per cent to 15.5 per cent with an added bonus of 0.5 per cent for projects that are completed on time.

But these companies may gain at the expense of the consumers who could end up paying an extra 5 per cent initially for the power they consume from existing plants. The increase could be higher if the extra transmission and distribution costs are added. The consumers will also have to indirectly foot the renovation and modernisation (R&M) bill of power plants as this cost can now be included in the generation tariff. R&M hitherto was often neglected for lack of funds by power firms, leading to very low generation levels and extended breakdowns. A case in point is the 500 MW Patratu plant in Bihar.

HIGH RETURNS: The return on equity for power plants has been hiked to 15.5 per cent

The only good news for the consumer could be that CERC wants efficiency gains in power utilities to be passed on to "beneficiaries" or state utilities that buy power. These may eventually reach the end-user.

The regulator has also attempted to do away with providing incentives to power generators on the basis of plant load factor (PLF) and instead linked it to the internationally accepted norm of "declared availability".

"The broad direction of the tariff regulation is to incentivise investments and share efficiency gains," says Pramod Deo, chairman of CERC. This will raise tariff to consumers initially. Though the new RoE may help attract fresh investments, it needs to be mentioned that the new rules announced after a gap of 5 years (the last one was announced in 2004) would have a financial impact on existing power plants especially those of the National Thermal Power Corporation (NTPC) — a central power PSU with a capacity of over 27,000 mw and sells power to states.

There has been a feeling that central power utilities such as NTPC have been able to improve their profitability through better efficiency but have failed to pass it on to its customers. CERC seems to have hit the nail on the head by raising the normative level of PLF from 80 per cent to 85 per cent in thermal power plants for fixed cost recovery. "This has been a long standing demand from states," says Deo.

Generation power tariffs are split into two components, fixed and variable. Fixed costs include costs such as debt servicing, return on equity, operation and maintenance (O&M) expenses that need to be recovered irrespective of the level of generation. Variable costs are running expenses and primarily include the cost of the fuel. Under the methodology of tariff calculation, formulated in late early 90s, fixed costs are recovered at a "normative" level of generation of the power plant.

While NTPC has not publicly expressed its view on the new tariff regulations, NTPC's chairman and managing director R.S. Sharma reluctantly told *BW* that "this is a very balanced tariff regulation". Deo says CERC calculations show that eventually the loss in terms of tariff increase will be balanced out by efficiency gains.

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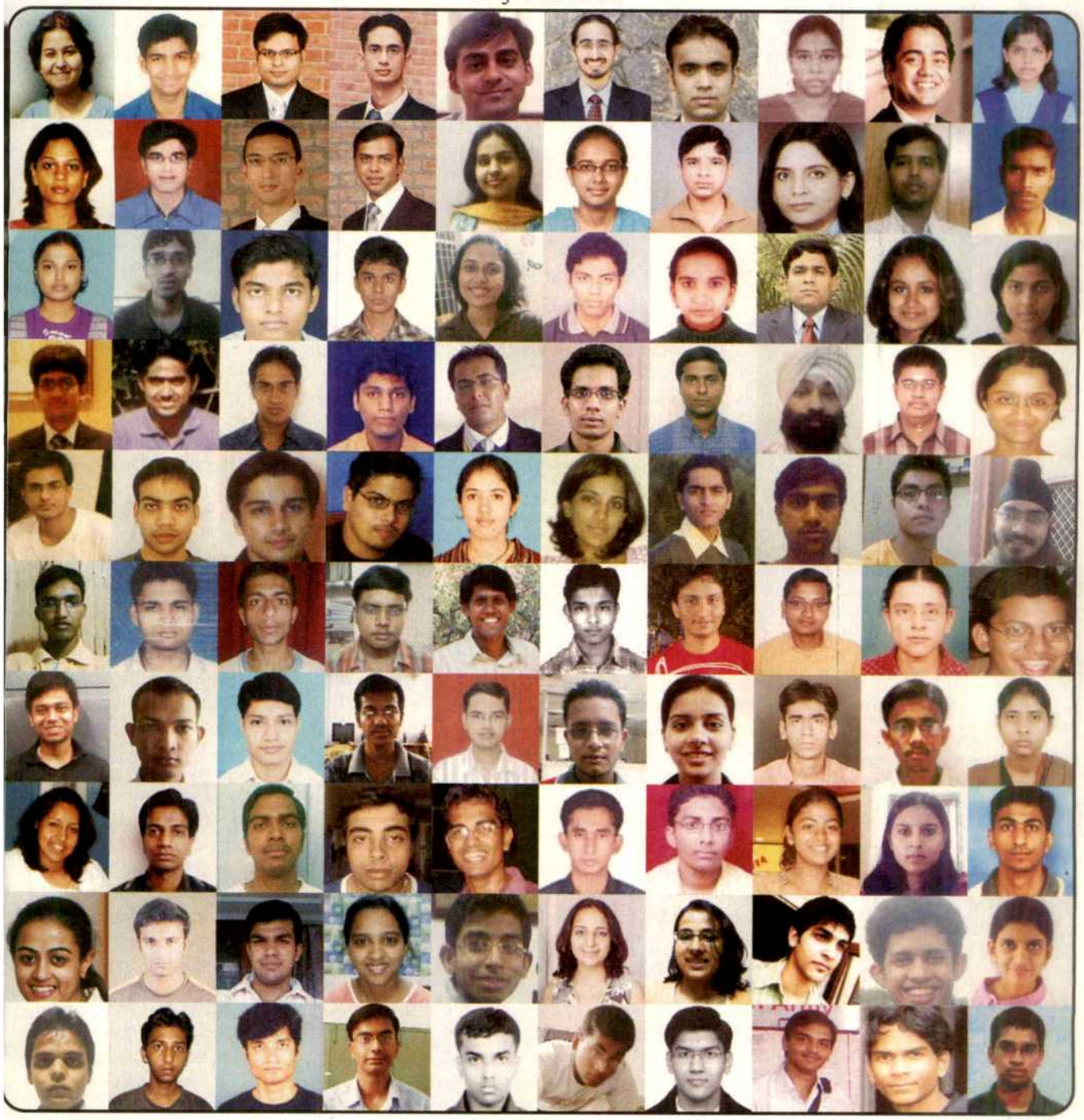

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The Future Of Food

by Noemie Bisserbe

DIFFERENT MENU: Farms such as this one at Dharmapuri near Coimbatore may never be the same again

EXECUTIVE SUMMARY

- About 56 GM foods, including brinjal, rice, potato, tomato, wheat, and cabbage, will hit the market
- Government still needs to make large investments in irrigation and infrastructure in rural areas

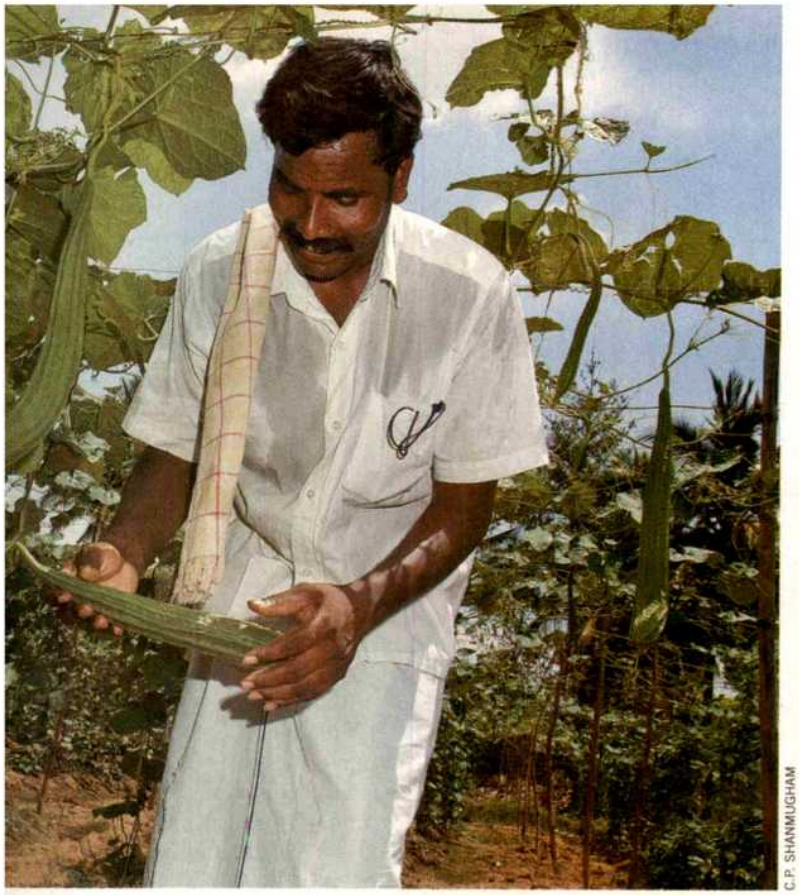
CRIPPLED by debt after the suicide of his father in 1996, 42-year-old farmer Mothi Reddy migrated from his village Kantathmakur in Andhra Pradesh to Warangal city. He never went back. That is, until six years later, when he heard that a "magic seed" was raising cotton yield exponentially, and returned home to plant it in a part of his 6-acre farm. Today, sitting in the verandah of his village home, Reddy smiles, revealing his widely spaced, crooked teeth and says Bt cotton gives him a yield of 12 to 15 quintals per acre, as against just 6 quintals in his father's time. And he now makes a 30 per cent profit. "I have been able to renovate the house and send my son to an engineering school," he says in Telugu. Farmers at Kantathmakur now say they want new Bt technologies in vegetables, cereals and pulses.

A few kilometres to the West of Kantathmakur, Ram Reddy, a 45-year-old farmer in Medak district, paints an entirely different picture. He is struggling to make a living with his 20 acres of Bt cotton fields. Last season, he got 4 to 5 quintals per acre. "The flowers are falling before they open," he says angrily. "Everybody here is facing the same problem, but local agencies are only providing Bt seeds. We have complained, but nobody is doing anything about it."

Somewhere between the contented smile of Mothi Reddy and the laments of Ram Reddy lies the truth about India's tryst with genetically modified (GM) cotton, the country's first GM crop. Soil conditions may have been responsible for the poor yield of Ram Reddy's land or the seeds may have been counterfeit. But even as the controversy around Bt cotton is yet to be put to rest, India appears determined to approve its first genetically engineered food — Bt brinjal. The new crop, developed by Mumbai-based Mahyco, which is 26 per cent owned by the US biotech giant Monsanto, could be available in the next few weeks as large-scale field trials get over in the coming days.

A host of other crops, including rice, tomato, okra, mustard, potato, onion, maize, wheat, tea and banana, currently under development, will follow suit and promise to alter the course of Indian agriculture, as well as the way we eat. Advocates of GM foods claim that Bt crops could provide a long-term solution to food security in India, which produced only 70 million tonnes of wheat and 90 million tonnes of rice against a demand of 72 million tonnes and 93 million tonnes, respectively, in 2007-08. And the gap is widening. Yet, many questions about the health and the environment impact of these technologies remain unanswered, and NGOs such as Greenpeace see in the advent of GM crops a conspiracy between seed companies and the government. GM food would represent a multi-billion dollar opportunity for agro-biotech firms such as Mahyco, Bangalore-based Avesthagen and Metahelix Life Sciences. "Is the priority here public health or the growth of the biotech seed industry?" asks Mira Shiva, member of the All India Drug Action Network and the Initiative for Health, Equity and Society.

Isolated voices within the country's scientific community are also pointing at gaping holes in the country's regulations, such as the lack of safety tests, and claim India is unprepared to tackle GM crop proliferation. "This is a hilari-



C.P. SHANMUGHAM

Bt brinjal could open the floodgates for a host of GM foods in India, but are we prepared for the fallout?

ous mess," says Pushpa Bhargava, founder of the Centre for Cellular and Molecular Biology in Hyderabad, who recently joined the Genetically Engineered Approval Committee (GEAC) as per a Supreme Court order.

The Doors Have Opened

While about 56 GM crops are under development in the country, according to Greenpeace, new Bt seeds for brinjal, rice, mustard, groundnut and cabbage are already under field trials — the final step before approval by the GEAC, under the Ministry of Environment and Forests.

Mahyco is likely to be the first firm in India to bring out a GM food crop, as field trials for its Bt brinjal, that promises to increase yield by 50 per cent, come to an end. "Large-scale field trials started back in August 2007. So the Indian Institute of Vegetable Research, which is carrying out the research in Uttar Pradesh, should submit its results to GEAC this month itself," says Mahendra Sharma, Mahyco's general manager. "We hope to be able to launch this year."

Another dozen private companies across Delhi, Maharashtra, Karnataka and Tamil Nadu are also developing GM food crops. Bangalore-based Nirmal Seeds is developing a variety of Bt brinjal though it is still in preliminary stages, says Gaurav Dhanda, head of the company's biotech research programme. Meanwhile, Avesthagen is conducting small-scale field trials for rice and mustard at the SP biotech Park in Hyderabad. "The new crops will be tolerant to drought, salinity," says the company's vice-president Seetharam Annadana. Metahelix has already applied for an authorisation for field trials of its Bt rice, says K.K. Narayanan, the company's managing director. "Bt tomato and Bt okra are still in early stage of development."

More than private firms, and much to NGOs' dismay, most of the GM crop research in India is being conducted by government-funded labs. As many as 33 institutes, including the University of Delhi, the Tamil Nadu University and the Bose Institute in Kolkata, are developing GM crops. "Public institutes need to support research that could play a significant role in alleviating rural poverty," says Delhi University's vice-chancellor, Deepak Pental.

The University itself is developing Bt mustard seeds for which field trials were conducted between 2004 and 2006. "We had to suspend the trials to conduct bio-safety tests. We are yet to decide where to conduct these tests," says Pental. Under the Environment Protection Act, bio-safety needs to be established before field trials can be initiated. The Department of Biotechnology has funded 10 per cent of the research, while the National Dairy Development Board (NDDB) funded the rest of the programme, according to Pental. "The seeds will be commercialised by NDDB, and the University will be entitled to royalties on sales." Bt seed technology will be licensed to a large number of

LARGER PLATTER

GM food crops under development

CROP	NUMBER OF GMOS*
RICE	25
TOMATO	23
SORGHUM	10
BRINJAL	8
GROUNDNUT	7
PIGEON PEA	7
POTATO	7
MUSTARD	6
SUGAR CANE	6
COWPEA	5
SOYABEAN	5
CASTOR	4
CHICKPEA	4
CHILLI	4
BLACK GRAM	3
BLACK PEPPER	3
CAULIFLOWER	3
MAIZE	3
OKRA	3
PAPAYA	3
RAGI	3
SAFFLOWER	3
CABBAGE	2
CARDAMOM	2
CASSAVA	2
PEARL MILLET	2
WATERMELON	2
ACID LIME	1
APPLE	1
BANANA	1
COFFEE	1
GINGER	1
MUSKMELON	1
ONION	1
POMEGRANATE	1
SUNFLOWER	1
TEA	1
WHEAT	1
YAM	1

* GMO: Genetically Modified Organism

Source: Greenpeace

MAGIC SEED? About 95 per cent of cotton farmers in Andhra Pradesh grow Bt crops

companies so that it is available to all farmers at an affordable price, says Pental.

Building On Bt Cotton

GM food advocates argue that India must build on the success of Bt cotton, and that biotechnology could help India achieve food security and progressively eradicate rural poverty, since most of the rural poor depend on agriculture. Going by the experience of Bt cotton, introduced in India in 2002 by Mahyco-Monsanto Biotech (MBB), a joint venture between Monsanto and Mahyco, new GM technologies could lead to a sharp increase in food production and farmers' income. According to India's economic survey, annual cotton production has increased from 8.7 million bales (of 170kg each) in 2002-03 to 23.4 million bales in 2007-08. India is today the second-largest cotton exporter after China, with 1.3 million bales exported across the world in 2007-08, according to the US Department of Agriculture. In 2007, 66 per cent of India's cotton fields were under Bt cultivation, according to a report by the International Service for the Acquisition of Agri-biotech Applications, a US-based not-for-profit organisation. MMB claims this figure stands today at over 77 per cent of India's 22.5 million acres of cotton fields.

GM Is Not A Panacea

However, before introducing GM technology, India should make sincere efforts at enhancing farm yields, instead of surrendering to GM foods, points out Ashok Gulati, director in Asia of the International Food Policy Research Institute, a non-profit research institute based in Washington. It's not the lack of technology that is holding back growth in agriculture. "If India was ready to invest in dissemination of existing technologies, improve basic infrastructure and irrigation, this alone could ensure India's food security for the next 15 to 20 years," he explains. "We have not exploited even half of the current technologies that are on the shelf."

Many hybrid rice seeds, which offer higher yields than conventional seeds, have been available for several years. "All technologies should be available within a 100 kilometres of every village," says Devender Sharma, an agricultural scientist and a food policy analyst. For rice, the current technology can yield about 7 tonnes per hectare, but yield levels in eastern India are as low as 2 tonnes, according to Gulati.

The lack of public investment in agriculture and the continuing absence of convergence between the various inputs required to raise food productivity (soil, water, nutrients, poultry, livestock, fisheries and seed variety) remain the major stumbling blocks to indigenous agriculture growth. With the rise of services, the share of agriculture in GDP has declined from 37 per cent in 1983 to 18 per cent in 2008. "While the average growth rate in agriculture has been 4.7 per cent during the past three years, a comprehensive strategy is needed to sustain it," says S.M. Jharwal, Principal Advisor in the Agriculture Ministry. The government has actually set a lower target of 4.1 per cent growth rate in 11th Plan period (2007-12).

Health, Environmental Concerns

Paradoxically, while India already counts among the top five biotech countries globally (in terms of areas under Bt cultivation), there has seldom been a public debate on GM foods.

HARMFUL OR HELPFUL?

Heated debates on the health, environmental and socio-economic impact of genetically modified (GM) crops are raging globally

	Concerns	Counter-arguments
Health	Studies conducted by independent scientists suggest that GM foods could have serious impact on health — from allergies to infertility and development of tumours	GM food advocates claim that these studies have no scientific basis, and that none prove that GM food is indeed harmful
Environment	Can cause surface and groundwater pollution, soil degradation and erosion and loss of biodiversity	GM crops on the contrary are environment-friendly: they reduce the use of pesticides, which are known to be toxic
Farmers	Leads to the loss of farmers' rights over their seeds — GM seeds need to be replaced every year (as opposed to conventional seeds that can be saved)	Hybrid seeds, introduced in India in the 1970s, already produce sterile seeds. So it is not Bt that created the depence of farmers upon seed companies

TOP 10 BIOTECH COUNTRIES

In 2007, 12 developing and 11 industrial countries planted biotech seeds. The global market value for biotech crops, estimated by Cropnosis, was $6.9 billion, representing 20 per cent of the $34 billion global commercial seed market

GRAPHIC: NEERAJ TIWARI

Source: International Service for the acquisition of Agri-biotech Applications

A study conducted in Delhi in July and August 2008 by the Asian Food Information Centre, a non-profit organisation from Singapore is a revelation. Among the 204 people surveyed, barely 50 per cent had "at least some knowledge" about biotechnology.

Several studies have, however, pointed at the alarming environmental and health risks associated with GM technology, ranging from allergic reactions to infertility. In early January, an independent analysis on Bt Brinjal conducted by France's Committee for Independent Research and Information on Genetic Engineering concluded that the crop, when consumed, could induce resistance to kanamycin, a well-known antibiotic. Last November, a study sponsored by the Austrian Government also showed that the fertility of rats fed with GM corn decreased over generations; while last year, Irina Ermakova of the Russian Academy of Sciences showed that GM soya made female rats give birth to severely stunted and abnormal litters.

However, GEAC members has never even discussed these reports, claims Bhargava, as they feel most do not have sound scientific basis. "If you over-feed a rat on one protein, it's likely not to be very healthy," says Pental.

Graham Brookes, an agricultural economist with UK-based consulting firm PG Economics, insists that the opposition to GM is based on misinformation. "When GM food has the potential to deliver significant health and environmental benefits, activists should be charged with crime against humanity." According to a PG Economics study, the use of pesticides has come down globally by 7.8 per cent between 1996 and 2006 because of GM crops.

Certain practices by companies such as Bt seed giant Monsanto, which owns a global market share ranging from 70 to 100 per cent for any given Bt crop, have brought disrepute to agro-biotech companies. "Considering seed companies' behaviour, you can only be suspicious," says Shiva. In January 2005, Monsanto agreed to pay a $1.5-million fine after admitting it had directed an Indonesian consulting firm to give a $50,000 bribe to a government official in Indonesia to avoid an environmental impact assessment on its Bt cotton. As a result, many see in agro-biotech companies corporate greed getting the better of farmers, who lose traditional ownership over their seeds. As opposed to conventional seeds that can be saved, Bt seeds need to be purchased every year.

However, in Warangal, many young farmers say they have always used hybrid seeds that need to be replaced every year. While these figures may vary from state to state, about 50 per cent of cotton farmers were already using hybrid seeds when Bt cotton was introduced by

FOOD FOR THOUGHT: Agricultural economist Graham Brookes says activists should be charged with crime against humanity

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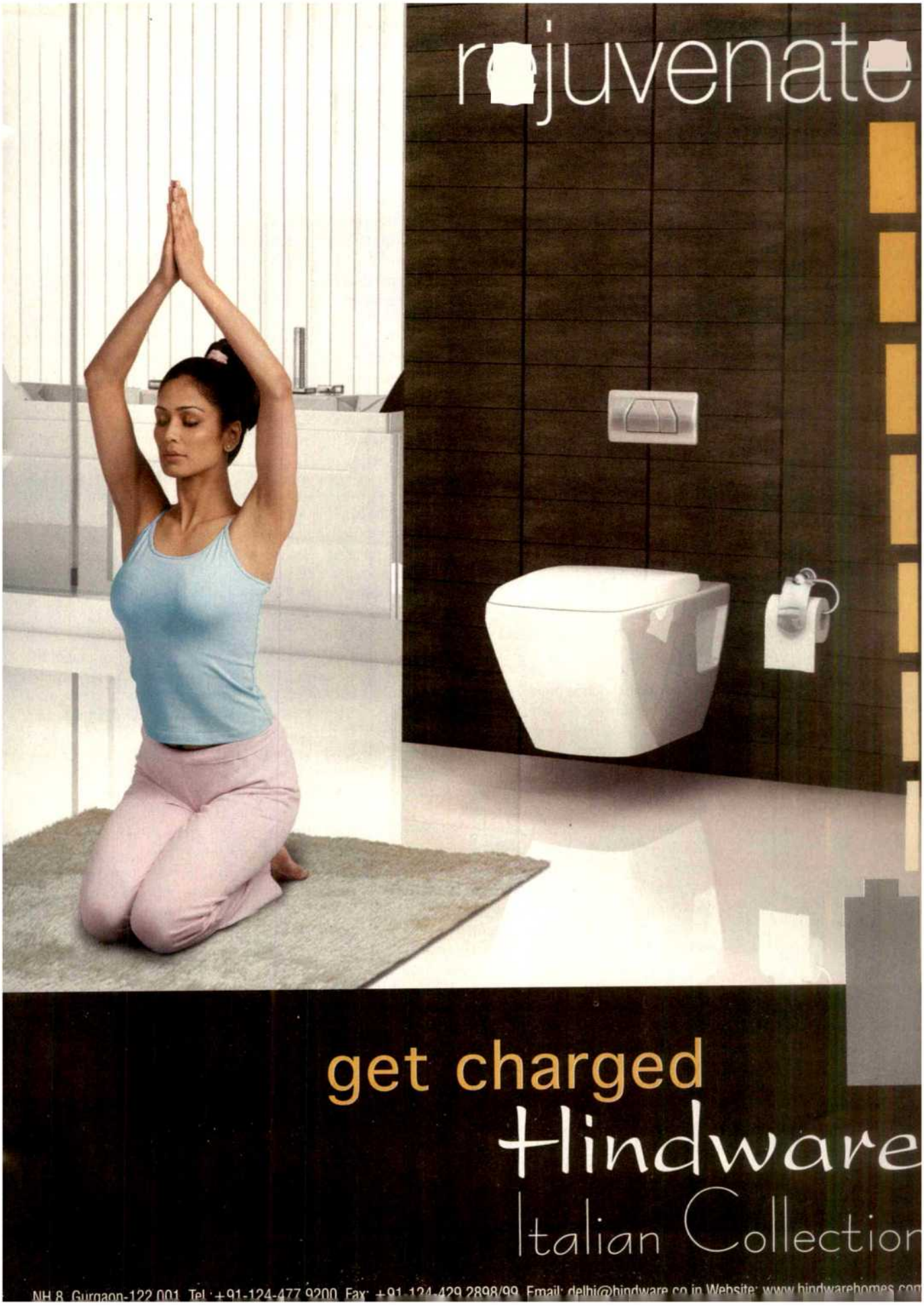
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CROP VARIETIES YOU NEED TO KNOW

New technologies are being introduced in India to get better yield from farming

	Definition	Benefit for the farmer	Availability	Seed replacement	Price
Genetically modified (GM) crop	A crop whose genetic characteristics have been altered using biotechnology	Used to improve insect or pest resistance, or nutritional value	Cotton is the only GM crop approved in India. It was introduced by Mahyco-Monsanto Biotech in 2002	Bt cotton seeds are patented and need to be replaced by farmers every year	Rs 750 for a 450gm-packet of Bt cotton seeds
Hybrid crop	Crop produced by artificially cross-pollinating plants	Better yield, disease resistance and greater uniformity	Hybrid seeds for crops, ranging from cotton to brinjal and rice, were first introduced in India in the '70s and '80s	Hybrid varieties produce sterile seeds, so like Bt seeds, they need to be replaced every year	Varies. A 450gm-packet of cotton seeds costs Rs 450; cabbage or brocoli, over Rs 110 per 10gm-packet
Conventional crop	Non-hybrid seeds		Still available, except for cotton seeds	Seeds can be saved every year, but it is generally recommended to replace seeds every 4 years	Varies from crop to crop. Can range from Rs 50 to Rs 250 per 450gm-packet

MMB in 2002. Similarly, today 70 to 80 per cent of crops such as maize, sorghum, pearl millet and sunflower are already under hybrid cultivation. These figures would be lower though for vegetable crops: about 36 per cent of brinjal, 45 per cent of tomato and chilli, 46 per cent of okra, and 65 per cent of cabbage. For rice, the figure would be as low as 5 per cent.

What is, however, alarming is that conventional and hybrid cotton seeds have virtually disappeared from the market. "Today, no one is selling conventional or hybrid cotton seeds," says Newa Singh, a 51-year-old farmer from Mansa, Punjab. MMB's deputy managing director Raj Ketkar argues that local dealers stock what farmers want. "If farmers are demanding Bt technology, then that is what will be available."

The advent of GM food crops may leave a section of farmers such as Newa Singh vulnerable, especially if, like it happened in cotton, conventional seeds are no longer available.

Part of the solution could be to apply Bt technology to conventional seeds. While private companies will only develop Bt for hybrid seeds to protect their intellectual property rights and profits, public institutes could take up the project. Hypothetically, if Bt technology was applied to conventional seeds, farmers would be able to benefit from new technologies without having to replace their seeds every year. "There is no scientific reason why it cannot be done," admits Delhi University's Pental. "There are fewer incentives though," he admits with a smile. So, maybe, public institutes need a push in the right direction.

Unprepared Nation

India has adopted GM norms on the lines of that in the US, which many feel is too lax. Europe, on the other hand, is resisting the introduction of GM crops, and has introduced a strict labelling system for GM food products.

There is also a question mark over the procedure for clearing GM crops for human consumption. "Not even 10 per cent of the necessary tests figure in GEAC's list of mandatory safety tests," fumes Bhargava. The results of the few safety tests too are not validated by any independent body as is the case in Europe. "It is not possible to validate the results with an independent source," says a senior GEAC official.

Even the regulators are ill-equipped to handle the proliferation of GM crops, and particularly, post-harvest issues such as a nationwide infrastructure to monitor segregation of GM farms and labelling of products processed from GM crops which is mandatory in many countries. "We have not started thinking of labels yet," says a GEAC official. While western Europe has strict labelling norms, the US has none.

The objectivity of GEAC members, many of whom such as Pental are themselves developing GM crops, is also questionable. "Experts must not be responsible for the approval of a crop for which they are conducting research," says a GEAC official.

While GM crops may help improve productivity, safety issues need to be tackled transparently. And for the larger goal of making India food secure, GM crops can only be an enabler, not a substitute, to long overdue investments in irrigation and infrastructure in rural areas.

With inputs from M. Rajendran

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Made In America

by nayan chanda

INTERVENTION BY THE STATE TO PROTECT CITIzens of Western countries from the devastation of the economic crisis is beginning to slip into a protectionist groove that could, if unchecked, sink the world into a 1930s-style 'depression'. Since that time, when the US 'beggar thy neighbour' policy was enshrined in the Smoot-Hawley Tariff Act, brought about economic ruin, the world has become so much more integrated that a trade war could cause incalculable social unrest and political convulsions.

'Buy American' provisions may provide job security to some, but protectionism will stunt global trade

A foretaste of the political fallout to come has been apparent in Europe in recent weeks. Normally placid Icelanders pelted their Prime Minister with eggs and stones for failing to prevent the collapse of the country's economy. While Iceland government has collapsed, angry demonstrators in Bulgaria, Hungary, Latvia and Lithuania too threatened to bring down their governments. If that were to happen the successors would likely be more inward-looking ones, focused on insulating them from further foreign contagions. Should they succeed in doing so, however, they would ultimately usher in a new period of disastrous isolation and misery.

As the global financial crisis began on Wall Street, the eye of the protectionist storm could well be hovering above Capitol Hill. With the ranks of laid-off workers swelling daily and businesses hanging 'going out of business' signs in US towns, a rattled Congress has been feverishly drawing up legislation to save American jobs. As the stimulus package goes through Congress, lawmakers from the hardest-hit states have attached 'buy American' provisions to the rescue plan. For instance, $64 billion of the $825-billion stimulus bill is devoted to repairing US roads, bridges and waterways. Under amendments offered by representatives of states where uncompetitive US steelmakers have had to shutter their mills, strings have been attached to block the disbursement of allocated funds "unless all of the iron and steel used in the project is produced in the US." Another amendment requires that any health information technology system acquired with taxpayer money must be produced by American programmers and engineers. As one sponsor of the amendment put it, "[t]his is a US jobs bill — let's keeps those tech and IT jobs here."

In the current mood of deepening crisis, moves to bail out US car manufacturers have also been accompanied by calls to buy American cars, even to buy only American in shopping malls. This seemingly logical and patriotic call to 'buy American' at a time of crisis runs up, however, against two realities. First of all, consumers will struggle to find any article of clothing, shoes, toys or electronics that are not made abroad or that do not contain foreign components. At a time when nearly all industrial products, certainly American cars, are built from foreign parts, if not manufactured wholesale in low-wage countries, the line between American and 'foreign' products has been entirely obscured. Would it be unpatriotic, for example, to buy a GM car if that car was made in Mexico? Secondly, the call to exclude foreign goods and workers from US government-funded projects could violate WTO rules. Under a Government Procurement Agreement signed by 28 countries, signatories are committed to procurement rules that do not discriminate against foreign products or suppliers.

The legal challenge aside, one unavoidable consequence of any 'Buy American' provisions in the stimulus package would be the retaliation from China, Europe and other countries now in the process of allocating government funds to boost their sagging economies. Concerned about the wider ramifications of this retaliation, US business groups and major companies such as Boeing, Caterpillar, and General Electric — have called on the Congress to resist such protectionist pressure.

Despite the lessons of history, the dangers posed by protectionism are often seen as a problem for tomorrow while saving jobs is a fiercely urgent task. The world now needs leaders who can stay calm in the face of the raging storm and work together to stimulate their own economies without triggering a new wave of protectionism.

The Great Depression that produced trade battles and contributed to the rise of strident nationalism culminating in World War II stands as a singular warning against the seduction of narrow nationalist solutions. 'Buy American' provisions may temporarily provide job security for some Americans, but the contagion of protectionism will stunt global trade bringing misery to Americans and rest of the world.

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Circuitous Routes

by Rajeev Dubey

Companies do use subsidiaries to inflate balance sheets

THE MORE THE MESSIER. THAT'S, PERHAPS, THE most apt explanation for India Inc.'s decades of obsession with a multitude of subsidiaries. "The more the number of subsidiaries, the more inflated is the balance sheet," explains a Delhi-based company secretary.

The Satyam scandal unearthed the roundabout method of inflating revenues within subsidiaries. *BW's* research on the Top 50 companies with most subsidiaries has thrown up two of India's largest realty firms — Delhi-based Unitech and DLF — on top of the list (see 'Ranking by subsidiaries'). Unitech has the maximum — 316 subsidiaries. India's largest realty firm DLF has the second highest — 243 subsidiaries. Unitech managing director Sanjay Chandra says he set up several subsidiaries because states restrict land holdings. No company in Haryana can own more than 18 acres while in Tamil Nadu, the ceiling is 15 acres. "Promoters buy land and sell it to listed companies, but we do all our business in Unitech," says Chandra. "Besides our subsidiaries only hold land. They don't book revenues or profits."

BW has not established if any of Top 50 in this list has inflated figures but we talked to chartered accountants to explain the standard operating procedure to inflate balance sheet.

Subsidiaries book revenues and assets by transacting with each other. One subsidiary books transactions with another subsidiary, without transferring goods or services, raising sales. Sometimes these transactions themselves are at values higher than the market value of the goods or services. According to Akil Hirani, managing partner of corporate law firm Majmudar & Co., it is a practice prevalent in several groups who consolidate their books to bring the revenues and profits on to the parent's balance sheet. "There is nothing illegal about it so long as it is within law," says Hirani.

But often it is not within the law. Though the Companies Act makes it mandatory for companies to disclose 'related party' transactions, these disclosures have limited information. "The common man cannot understand and interpret them," says Delhi-based chartered accountant Sandeep Agrawal. Though there is little ambiguity about a related subsidiary, there is still a lot of grey area around subsidiaries of subsidiaries. When it comes to the pyramid structure of holdings, rarely do auditors dig deeper into the bottom of the pyramid.

In fact, in a majority of the cases, the subsidiary balance sheets are not being audited by the parent company's auditors. While many read this as an attempt by the parent company's management to keep its dealings in subsidiaries secretive, others say that large accounting firms are not interested in auditing smaller subsidiaries. Parent companies also find the minimum Rs 10 lakh audit cost too steep for small firms. But eventually transparency becomes a victim of this intricate web of arguments.

Analysts say it is not impossible for vigilant auditors to unearth a wrongdoing. For instance, credit rating agencies base their ratings on the audited and certified accounts. "However, we do look for contra indicators — numbers that are not commensurate with the rest of the accounts," says Naresh Takkar, managing director of credit rating agency Icra. For instance, if a company has very large bank deposits, that should reflect in large interest earnings. "We also look at contra indicators in the overall context of an industry — capital and input costs, revenues, margins, etc., anything that appears suspect. When we rate a company, we physically see their major facilities and we interact with their bankers," adds Takkar. Unfortunately, most auditors do not.

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Ranking by subsidiaries

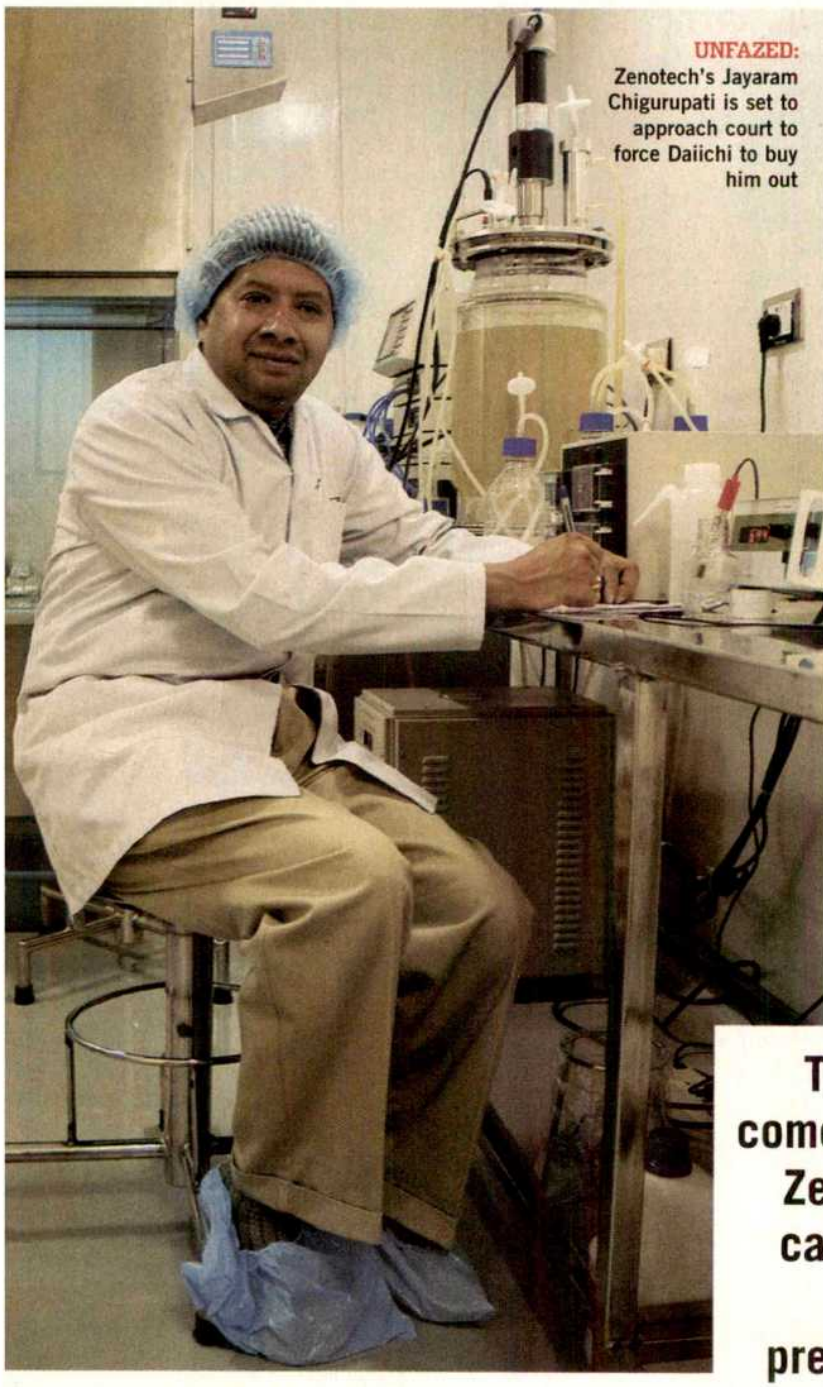
RANK	COMPANY	NO. OF SUBSIDIARIES	ECONOMIC ACTIVITY	SALES	PROFIT AFTER TAX	RESERVES FUNDS	CASH/BANK BALANCE
1	Unitech	316	Real estate	4,144	1,668	3,323	1,405
2	DLF	243	Real estate	14,041	7,821	18,397	2,142
3	GlaxoSmithKline Pharma.*	99	Pharmaceuticals	1,795	547	1,296	154
4	Larsen & Toubro	77	Engineering	29,134	2,271	10,772	1,560
5	Anant Raj Inds.	70	Real estate	41	436	2,816	604
6	IL&FS Investment Magrs	68	Financial services	NA	31	41	21
7	Dr Reddy's Laboratories	68	Pharmaceuticals	5,212	438	4,412	745
8	Reliance Industries	62	Petroleum products	1,43,005	19,554	82,374	6,021
9	Ranbaxy Laboratories*	57	Pharmaceuticals	6,776	786	2,615	437
10	Mahindra & Mahindra	56	Automobiles	24,712	1,844	5,925	1,727
11	Reliance Communications	56	Cellular services	20,605	6,792	27,994	878
12	Adani Enterprises	36	Trading	19,571	376	2,092	1,642
13	Aurobindo Pharma	31	Pharmaceuticals	2,562	238	1,097	282
14	GMR Infrastructure	30	Stockbroking	2,625	262	5,753	894
15	HCL Technologies**	30	Software	7,562	1,053	4,046	1,011
16	Aditya Birla Nuvo	26	Diversified	12,151	26	3,510	793
17	Tata Steel	25	Steel	1,34,132	12,321	27,971	4,231
18	Dalmia Cement (Bharat)	24	Cement	1,676	350	1,155	237
19	PSI Data Systems	24	Software	101	2.5	-32	1.7
20	State Bank of India	23	Banking	5,611	9,017	60,604	89,028
21	Glenmark Pharmaceuticals	22	Pharmaceuticals	2,013	632	1,493	156
22	DCM Shriram Consolidated	21	Diversified	2,777	672	1,115	57
23	Gitanjali Gems	21	Diamonds	4,833	173	1,768	1,122
24	United Spirits#	20	Ethyl alcohol	7,542	301	1,988	543
25	Akruti City	19	Real estate	409	299	718	40
26	Godrej Industries	19	Organic chemicals	3,024	178	1,334	364
27	Indian Hotels Co.	19	Hospitality	2,920	313	2,188	257
28	Tata Consultancy Services	19	Software	22,867	5,059	12,102	1,223
29	Zee Entertainment Entp.#	19	Media	1,835	416	2,817	165
30	Britannia Industries	18	FMCG	2,809	176	668	53
31	Emami	18	FMCG	620	91	273	6.6
32	Hindalco Industries	18	Aluminium	61,733	2,623	17,084	1,716
33	Pantaloon Retail (India)**	18	Retail	5,840	-28	2,021	365
34	ICICI Bank	17	Banking	15,991	3,115	43,609	45,328
35	IVR Prime Urban Developers	17	Real estate	88	101	877	359
36	Tech Mahindra	17	Software	3,766	329	1,135	97
37	Videocon Industries##	17	Consumer electronics	12,607	692	6,667	1,921
38	Edelweiss Capital	16	Financial services	NA	292	1,809	1,944
39	GTL	16	Cellular phone infrastructure	1,771	266	1,023	861
40	Dishman Pharmaceuticals	15	Pharmaceuticals	811	119	534	37
41	GMR Energy	15	Power	1,707	50	8	38
42	Jaiprakash Associates	15	Real estate	4,543	796	4,344	2,462
43	Mphasis	15	Software	2,423	255	948	95
44	Redington (India)	15	Trading	10,369	136	643	182
45	Vaibhav Gems	15	Diamonds	760	-255	378	50
46	Kotak Mahindra Bank	14	Banking	1,661	2,120	8,379	3,388
47	Max India	14	Healthcare	3,278	-59	1,542	86
48	Raymond#	14	Garments	2,482	17	1,365	57
49	Reliance Capital	14	Financial services	2,111	1,006	6,363	1,056
50	Tata Motors	14	Automobiles	38,966	2,234	8,311	3,833

Figures in Rs crore; Figures are as of March 2008; **year ended Dec 2007; #year ended March 2007; **year ended June 2008; ##year ended September 2007; NA: not applicable

Source: Prowess, CMIE

Acquisition Battles

by Gauri Kamath



UNFAZED: Zenotech's Jayaram Chigurupati is set to approach court to force Daiichi to buy him out

VIDURA JANG BAHADUR

IT IS LIKE DAVID STANDING UP TO THE GOLIATH. Jayaram Chigurupati, founder and managing director of a small Hyderabad-based biotech firm Zenotech Laboratories is taking on the might of Japan's third largest drug maker Daiichi-Sankyo.

When Daiichi took over Ranbaxy last year, little did it realise that it will be embroiled in a battle with Zenotech, the company it was acquiring indirectly — as Ranbaxy was the majority shareholder in it. For Daiichi, the acquisition was nothing but a tiny fallout of a giant deal. But Chigurupati had different ideas. He has accused Daiichi of reneging on its promise to pay an open offer price of Rs 160 to Zenotech's shareholders. He and a group of shareholders have moved Sebi alleging several violations of India's takeover regulations.

Indirect acquisitions have been the subject of much conflict in India with the Securities Appellate Tribunal having to intervene several times (Cases such as Ray Ban Sun Optics, Widia, Seamec come to mind). Many issues have got sorted out since, but every new case has a peculiarity. The Zenotech imbroglio has several twists, and the outcome could well become a precedent for many such cases.

"A rising tide should lift all boats, not just one," Chigurupati told *BW* in one of several telephonic interviews referring to the hefty premium Daiichi paid to buy a controlling stake in Ranbaxy. Daiich ponied up Rs 737 a share, a 31 per cent premium to the then ruling market price.

On 17 January this year Daiichi announced an open offer to Zenotech's minority shareholders for an additional 20 per cent stake at Rs 113.62 based on the average of Zenotech share's weekly closing highs and lows in the 26 weeks prior to the date of public announcement of the open offer to Ranbaxy's shareholders. But Chigurupati, who holds 26 per cent, is adamant on the offer price of Rs 160 per share, a 38 per cent premium to its current market price, and the same price at which Ranbaxy bought 47 per cent in Zenotech from him in November 2007. Ranbaxy's open offer to the minority shareholders at Zenotech was also made at Rs 160 in January 2008.

The outcome in the Zenotech case may set a precedent

Daiichi denies there was any such agreement. But Chigurupati is unfazed. He goes on to make a startling revelation that could set this case apart from the battles fought routinely between corporate India and its minority shareholders. He says Daiichi even promised to buy out his balance 26 per cent at the same price of Rs 160 a share.

Duped?

Ranbaxy acquired a large stake in Zenotech in 2007-08 to gain access to its injectible chemical and biotech products.

According to Chigurupati's detailed letter to Sebi dated 27 January, and his interviews with *BW*, Ranbaxy agreed to buy an additional 16 per cent stake from him at Rs 195 a share in July 2008 including Rs 35 a share as a "control and non-compete premium". It was allegedly also agreed that Chigurupati would step down from Zenotech's board, and be retained as an advisor. It was decided that minority shareholders would get Rs 160 a share in the subsequent open offer. This was okayed in August 2008 by Daiichi, he claims.

The letter goes on to say that on 20 December 2008, Daiichi director Tsutomu Une on a visit to Hyderabad withdrew the offer of a control premium and agreed to pay Rs 160 a share to buy out Chigurupati's entire 26 per cent. The entrepreneur agreed. Then on 15 January, shortly before Daiichi was to present the proposal before its board, Chigurupati alleges he was told that the deal was off. When contacted by *BW* about Chigurupati's latest allegations, Daiichi declined to comment. ICICI Securities, which is managing the open offer, was also unavailable for comment. Ranbaxy did not respond to an email within *BW's* deadline.

Tilting The Scales

Chigurupati's disclosures could strengthen the hands of Zenotech's minority shareholders. As things stand, their opposition to Zenotech's offer price is based on alleged violation of Sebi's rules. Shareholders say that Daiichi has erred in law by not making its open offer earlier. Under Sebi rules, an open offer has to be announced not later than "four working days of entering into an agreement for acquisition of shares or voting rights or deciding to ac quire shares or voting rights..."

One complainant, N. Narayanan of Karaikudi in Tamil Nadu, who holds 50,000 Zenotech shares, told *BW* on telephone that the decision to acquire Zenotech was taken when Daiichi announced it would acquire Ranbaxy on 11 June.

Another shareholder, Unifi Financial, has written to Sebi that Ranbaxy and Daiichi should be seen as "acting in concert" under the law, and so the price that Ranbaxy paid for Zenotech shares in January — which falls within the 26-week window has to be the final offer price as per the law.

Chigurupati himself alleges that "Daiichi postponed the open offer till recently only with a view to getting over the stipulation with regard to the 26 weeks' period." If it had made the open offer earlier, the offer price would have to be Rs 160, he says.

THE COOKIE CRUMBLES

Zenotech's share price has dropped since Ranbaxy acquired a substantial stake at Rs 160 a share in November 2007

Source: BSE

But Jayant Thakur, a securities law expert in Mumbai says that since Daiichi's acquisition of Zenotech qualifies as an "indirect acquisition" Sebi's rules allow for a three-month window after the acquisition of the holding firm (in this case Ranbaxy) is completed before an open offer to the target company's shareholders is announced.

The original intent of this law was to allow the acquirer to get clearances for the acquisition of the holding firm from foreign regulators in case the acquirer and the holding firm were both based abroad. In this case, the holding company — Ranbaxy — is based in India. However, going strictly by the letter of the law, since Daiichi completed the Ranbaxy deal including the open offer by November, its public announcement of the offer on 17 January was within three months of taking control of Ranbaxy.

But, "This is about the spirit of the law, and not just its letter," counters Narayanan.

Given this background Chigurupati's disclosures has come at an opportune time for Zenotec's shareholders "...based on the information provided by *BW*, there is this premium that Daiichi appears to have been willing to pay the promoter," observes Akil Hirani, managing partner at Mumbai-based law firm Majmudar & Co. "The question is should the other shareholders be entitled to that or not."

Hirani says there is an argument to be made in favour of shareholders on the grounds of equity. But he warns that the fact that Daiichi did not finally act on the alleged contract to buy out Chigurupati, "weakens the case" of the minority shareholders. Chigurupati, for his part, is ready to go to court to force Daiichi to buy him out. All eyes will be on the evidence he puts on the table.

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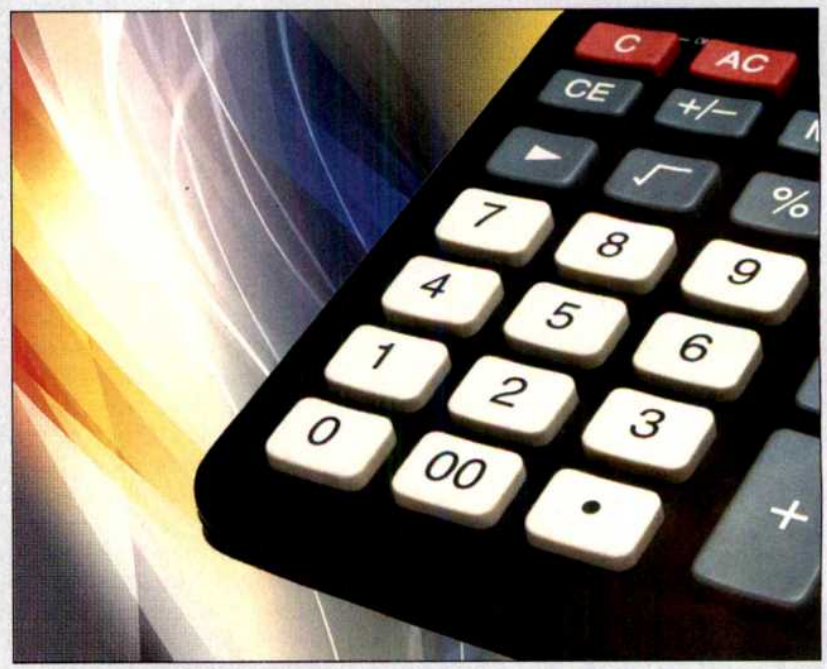
Taxing Matters

With the end of the financial year approaching, tax planning is upmost in everyone's mind. *Smita Tripathi* helps demystify the tax net

Come March and the most overused phrase in everyday discussions is tax planning. Whether you are meeting a group of friends for dinner or taking a coffee break with colleagues, you just cannot avoid the 'T' word. And if you feel you have had it till here with taxes but still don't understand what it's all about, we help you make sense of the whole thing.



WHAT IS TAX PLANNING?

Efficient tax planning is an essential part of your financial planning and enables you to reduce your tax liability to the minimum. And this can be done by legitimately taking advantage of all tax exemptions, deductions, rebates and allowances while ensuring that your investments are in line with your long term goals.

HOW TO PLAN TAX?

But before you start, it is important to understand that all financial planning should have long term goals and tax planning which is a part of this activity, should not be seen in isolation. The aim should be to understand the needs and goals that you have to meet and then figure out how to maximise your tax efficiency in your effort to meet these long and short-term goals.

While planning your taxes remember not to blindly invest money with the first agent that you might come across. Speak to a few agents and do your own research before making your investments. A lot of people end up buying insurance policies with minimal insurance coverage or putting money in instruments where they cannot access the money when they need it. Also tax planning need not be a last minute thing as they usually end up as hurried decisions and may not always turn out to be sound and wise for the long term. It is imperative that adequate thought and time should be devoted much before the actual T days start looming on you.

GROSS TOTAL INCOME

The first step in calculating your tax liability is to compute your gross total income. This will include income under the following heads:

- **Income from Salary:** This could include your basic salary, dearness allowance, commissions and bonuses, and is fully taxable. House rent allowance (HRA) is deductible up to a certain limit provided you are actually paying house rent. As per the Income Tax Act, 1961, the lowest of the following three amounts - amount equal to 50 per cent of annual salary for persons staying in Mumbai, Chennai, Kolkata or Delhi, but 40 per cent, for others; the actual amount of house rent allowance received; and the amount of rent actually paid in excess of 10 per cent of annual salary - will be deductible. Perquisites are benefits that your employer gives you in addition to your regular salary. These include accommodation or car or concessional loans. The total of all perquisite values is added to the salary and tax is calculated on the usual slabs.
- **Income from House Property:** Any rental income that you receive from a residential or a commercial property is taxed under the head 'income from house property'. What is taxed under this head is not the actual rent

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received but the capacity of the property to earn income. The gross annual value of the property is taken to be highest of the following three amounts - the municipal value of the property; the actual rent received during the year and; fair rent, that is, rent of similar properties in the same or a similar locality. From this value, municipal taxes actually paid during the year are deducted to arrive at the net annual value. In case of a self-occupied property which has never been let out, the income is considered to be nil, while interest payable on home loans for such properties taken on or after April 1, 1999, are tax-deductible up to Rs. 1.5 lakh a year.

- **Capital Gains:** If you hold any movable or immovable property or stocks for more than 36 months and then sell it, you incur long-term capital gains. If you sell the property before 36 months then you incur short-term capital gains. The only exceptions to this rule are the shares and units of equity mutual funds. In this case if you sell them after 12 months you incur long-term capital gains and short-term gains if you sell them within 12 months. Short-term capital gains are included in your gross total income and, after deductions, are taxed as per your tax slab. Other than for listed securities, long-term gains are taxed at 20 per cent with indexation. Gains from equity shares or units of equity mutual funds are tax-free in the long term and taxed at 10 per cent in the short-term.
- **Gains from Business and Profession:** Income earned from your profession, or through business, is taxed under the head 'profits and gains from business and profession'. The income chargeable to tax is the difference between gross receipts and the expenses incurred to earn that income.
- **Income from Other Sources:** Any income other than salary, house property income, income from business or profession, or capital gains income, will be taxed as 'Income from Other Sources'. Examples are interest from deposits, winnings from lotteries, races, income from the hiring out of machinery, royalty, copyright fees, family pension, dividends other than from domestic companies and mutual funds etc.

SELECTING TAX SAVING INVESTMENTS

After you have taken into account all the above taxable parameters, you need to seriously look for tax savings after careful consideration of the following:

- **Liquidity:** Figure out how quickly will you need to access the money, within the next year or two years or over what duration? None of the instruments let you withdraw your money quickly, in fact there is a minimum three year lock in for all tax saving investments.
- **Risk and Return:** Define how much risk do you want to take? There is a trade off between the two, some instruments are very low risk, but as a result they give low returns which are capped.
- **Inflation protection:** The instruments that give you a low return typically are the worst type of investments regarding inflation. This is important because many of the instruments give you a fixed rate of interest, and lock in your money for a long period. This is not a good protection against inflation.
- **Tax Exemption:** All tax saving investments under Section 80C are alike in one respect that they are tax exempt when they are invested. But they differ with respect to the tax on the income you earn from such an investment, as well as the tax on the maturity of the investment.

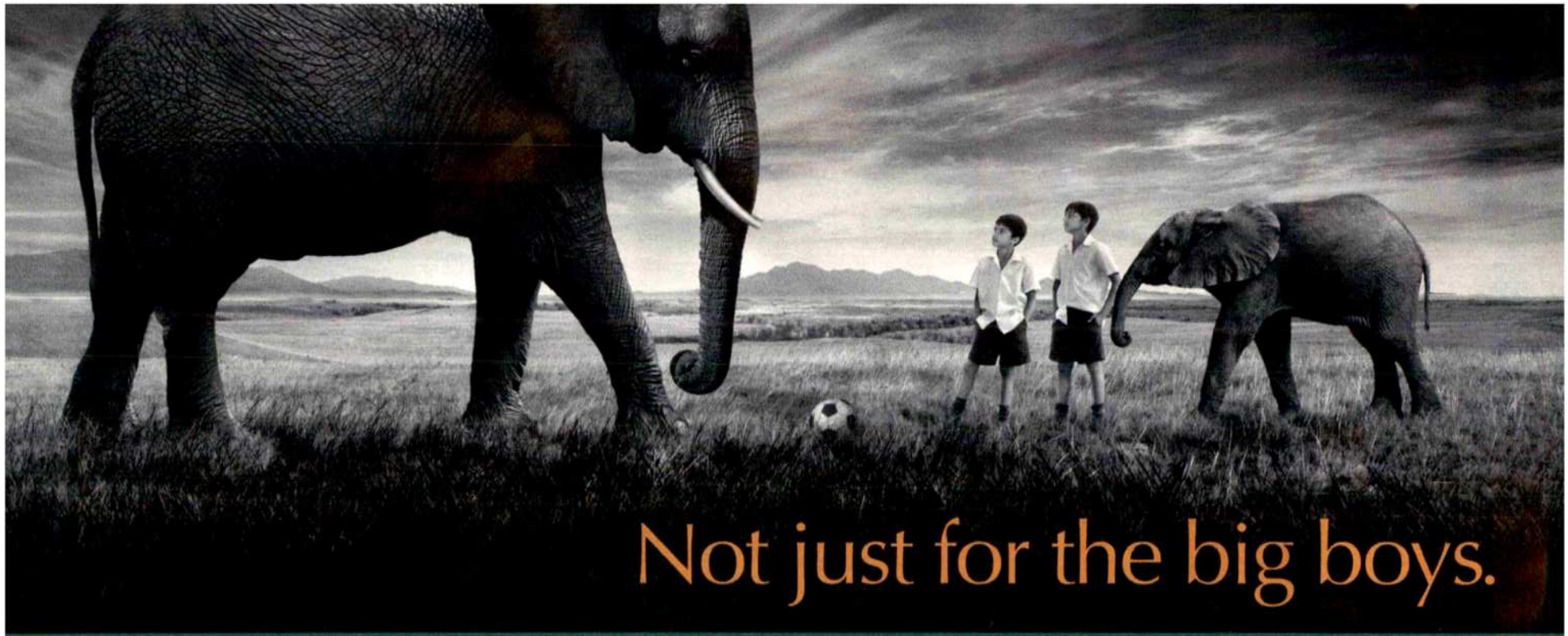
DEDUCTIONS

Having computed your gross total income and your preference, the next step is to account for all the deductions. We start with the most obvious one:

SECTION 80C

Which relates to investment in specified instruments and expenses. Under this section, a deduction of up to Rs. 100,000 is allowed from taxable income in respect of investments made in some specified schemes:

- **Public Provident Fund (PPF):** A PPF account can be opened at any post office or nationalised bank with a minimum amount of Rs. 500. As of now it earns a tax-free return of 8 per cent. Investments of between Rs. 500 to Rs. 70,000 per annum qualify for deduction under Section 80C. The account has a lock-in period of 15 years, though partial withdrawals are allowed after the 7th year.
- **National Savings Certificate (NSC):** If you do not have a risk appetite, NSCs are meant for you. These are government-backed securities and are available at post offices in denominations of Rs. 500 and above. Currently they give an interest rate of 8 per cent, compounded half-yearly. Hence in six years, Rs. 1,000 grows to Rs. 1,601. The interest is entirely taxable. NSCs have a lock-in period of six years.
- **Employees Provident Fund (EPF):** This is a forced saving for employees and helps them to save for retirement. Every month, 12 per cent of your basic salary is deducted and put into a kitty maintained either by the government or your company's trust. The contribution currently earns a tax-free return of 8.5 per cent.
- **Life insurance Premiums:** Under Section 80C, premium paid towards life insurance up to Rs. 1 lakh is eligible for deduction. This applies to all term, endowment, whole life, money back and ULIP plans.
- **Repayment of Housing Loan:** If you have taken a home loan, repayment of principal up to Rs. 1 lakh is eligible for deduction.
- **Equity Linked Savings Scheme (ELSS):** These schemes are offered by equity mutual funds and have a lock-in of three years. Since the amount put in by you is invested in the stock market, it is subject to market risk. Go for it only if you have 5-6 year old horizon since equity performs well in the long run. And this cannot be more true in today's time.
- **Tuition fees:** Tuition fees including admission fees or college fees paid for full-time education of two of your children is eligible for deduction. However, any development fees or donation or payment of similar nature is not eligible for deduction.
- **Infrastructure bonds:** Issued by institutions/banks such as IDBI, ICICI, REC, PFC etc are eligible for deduction.



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Section 80C deductions are allowed irrespective of your income level. Even persons with taxable income above Rs. 1,000,000 can avail benefits of section 80C. Moreover, since the deduction is allowed from the taxable income, the exact savings in tax will depend upon the tax slab of the individual. Thus, a person in the 30 per cent tax slab can save income tax up to Rs. 30,600 (or Rs. 33,660 if annual income exceeds Rs. 1,000,000) by investing Rs. 100,000 in the specified schemes u/s 80C.

SECTION 80D: HEALTH INSURANCE PREMIUM

You can take advantage of an annual deduction of Rs. 15,000 from taxable income for payment of health insurance premium for self and dependants. For senior citizens, this deduction is Rs. 20,000.

SECTION 80E: INTEREST PAID ON EDUCATIONAL LOANS

You can claim a deduction on the interest paid on loans taken for higher education for yourself, your spouse and children. There is no limit on the amount of deduction you can claim. The only thing to keep in mind is that the programme for which the loan is taken should be a graduate or post-graduate programme in engineering, medicine or management or a post-graduate course in the pure or applied sciences.

SECTION 80G: DONATIONS TO CHARITABLE INSTITUTIONS

You can claim a deduction for any donation that you might have made to a charitable fund or institution. However, these donations should be made only to specified institutions. And a proper proof of payment must be provided for the same. Based on the classification of the charity, you can claim either 100 per cent or 50 per cent of the donated amount as deduction. The deduction might also be subject to a certain limit again based on the type of charity that you are donating money to.

SECTION 24 - INTEREST PAID ON HOUSING LOAN

Under Section 24, a maximum of Rs. 150,000 can be deducted from your tax-able income as interest repayment for a self occupied house. This deduction however, is not available if the house is still under construction and you do not have occupation of the house.

SECTION 80 CCC: CONTRIBUTION TO A PENSION FUND

Under this section a deduction of up to Rs. 100,000 is allowed to an individual in respect of contribution to a pension fund. The Section 80CCC limit falls under the overall Section 80C limit of Rs. 100,000. In other words, the deduction aggregate, under Section 80C, 80CCC and 80CCD cannot exceed Rs. 100,000.

SECTION 80DD: MAINTENANCE OF HANDICAPPED DEPENDENT

Any expenditure for the medical treatment of a handicapped person, training and rehabilitation of a person suffering from a permanent physical disability (including blindness) or from mental retardation, qualifies for a deduction under Section 80DD up to Rs. 50,000.

Provisions that you should take advantage of if you are a salaried employee:

SECTION 10(13A): HOUSE RENT ALLOWANCE

You can take advantage of the provisions under this section if you are renting an accommodation. These provisions will not be available to you if you stay in a rent-free accommodation or live with your family or in your own house.

Under Section 10(13A), HRA is exempt to the least of the following: i) 50 per cent of salary (basic component + dearness allowance (if, applicable), ii) excess of rent paid over 10 per cent of basic salary; and iii) actual HRA received.

However, HRA exemptions are only available on submission of rent receipts or the rent agreement.

SECTION 10 (14) RULE 2BB(10) : TRANSPORT ALLOWANCE

Transport allowance granted for commuting between your residence and place of work is exempt up to Rs. 800 a month. You can take advantage of this provision to get a tax exemption of Rs. 9,600 annually by providing your employer with bills or a self declaration.

SECTION 17(2): MEDICAL REIMBURSEMENT

You can claim exemption up to Rs. 15,000 annually on actual expenditure incurred on your medical treatment or for treatment of any of your dependants. Moreover, there is no restriction of approved hospitals or clinic for the same. This is exempt only on provision of actual bills. However, if the amount is paid out as an allowance not a reimbursement then it would be fully taxable.

COMPUTATION OF INCOME TAX

After subtracting the deductions from the gross total income you get your taxable income. This is the income on which you pay the taxes as per the following slabs:

Taxable Income Slab	Tax Slab
Upto Rs. 150,000	Nil
Up to Rs. 180,000 (for women)	Nil
Up to Rs. 225,000 (for residents, 65 years or above)	Nil
Rs. 150,000 - Rs. 250,000	10%
Rs. 250,001 - Rs. 500,000	20%
Rs. 500,001 - Rs. 1,000,000	30%
Above Rs. 1,000,001	30% + 10% surcharge on tax

Note: In addition, an education cess of 3% is charged on the entire tax amount including surcharge

A YEAR LONG PROCESS

Although tax planning may appear to be a Herculean task, it isn't that difficult after all. You only need to make it a regular habit. Tax planning is not meant to be undertaken in February or March. It is a year long process. Trying to make lump sum investments at the end of the financial year leads to a cash flow problem. And last, stick to your financial goals so that tax planning flows automatically.

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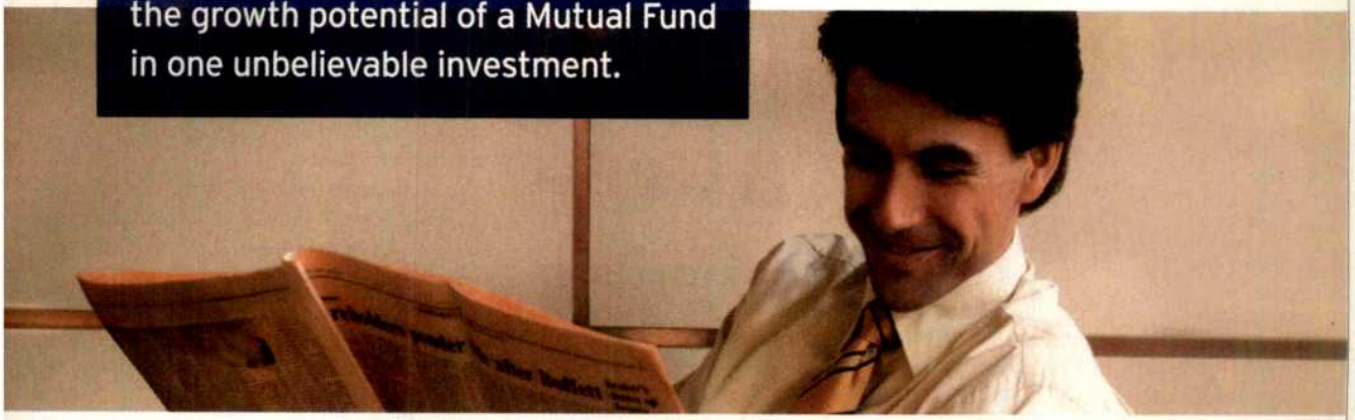

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Don't Repeat Mistakes

by paul samuelson

ONE LESSON WAS LEARNT FROM THE 1929-1937 Great Depression. Slow and feeble response from President Herbert Hoover allowed a weak 1930 Main Street recession to metastasize into the malignant cancer of long-lasting depression.

The three years following the 1929 global and US stockmarket crash were so much wasted time as to require the saving of capitalism by Franklin Roosevelt's New Deal to take another several years. President Barack Obama's team will not make the Hoover mistake. I hope the Republican minorities in Congress yield to the challenge of promoting necessary deficit-spending programmes on Main Street. Such spending will have to be both short run and long run.

Obama and Congress will need to recreate a new market spending that is ultimately self-sustaining

My economics teachers at Chicago in the 1930s were slow to frame good advice because, prior to 1929, business cycles had been normally moderate. Today's macroeconomists have been quicker to react. Your typical Ivy League or Big Ten scholars, as well as their bank and corporation colleagues, were awakened fast from their complacency that central banks' orthodox lean-against-the-wind credit manipulations could keep business cycles temperate. Painful reality purged their notion that deficit fiscal spending was only a secondary recovery weapon.

Don't believe that eloquent oratory about how confidence can, by itself, catapult Main Street into recovery of jobs and rising real wages. Talk not backed by genuine actions only breeds disappointment. How much will the needed spending all cost in the end? No jury of experts can tell. What is certain is that spending too little in the short run and in the long run will worsen future inflation and public debt. Dollars of preventive spending will save more dollars of spending later.

Non-economists mislead themselves when they talk of 'jump-starting' the economy. Recharging a dead auto battery comes to naught if plentiful gasoline is not available to propel the car forward.

There is a still different fallacy that hopes to achieve recovery by 'priming the pump'. Farm boys know that wetting the dried valves of a pump can produce a sustained flow of water only if the underground wells already have chock-full reservoirs. Healthful deficit spending is not a one-time thing. Perforce it must be renewed spending over multiple pre-recovery years.

Alas, President George W. Bush's legacy to the American people is universal risk aversion as well as trillions of dollars of debt that will never get repaid. Obama and Congress will need to recreate a new market spending that is ultimately self-sustaining.

I learned all this in 1932, after I began my economics study at the famous but conservative University of Chicago. My professors were known worldwide. But, alas, it took a Depression to teach them that no market system can ever stay stable and be self-healing.

Roosevelt's critics thought wastefulness would beggar the US permanently. They were wrong. Even prior to Pearl Harbor in 1941, the US economy had become the powerhouse that saved the world from an Adolf Hitler victory.

Did New Deal rescues generate end-of-1930s moral hazards? Economic historians document that this was not the case.

President Obama will face a tough prospect. His predecessors — the ones who let the meltdown explode — will say, "Don't overspend." They do not come into court with clean hands. Franklin Roosevelt's popularity with the voters was all-important for America's conquest of the Depression. Pray that Barack Obama's emerging critics will not delay and jeopardise the return of prosperity by 2012 or sooner.

Today's travails trace back directly to the Ronald Reagan 1980 electoral victory. An aging president was surrounded by the "radical right supply-siders" who planted the seeds of Bush-type market deregulation. Both Bushes came to the White House with Reagan's rash notion that government is the problem, not the solution. This has been the mantra of the Milton Friedman libertarians. That kind of Republicanism has been bad for Main Street prosperity. Periodically the US way of life broke away from Reaganism when Paul Volcker broke the back of inflation by tough-love Federal Reserve policy.

In the late 1990s, Bill Clinton's centrism bequeathed the young Bush both a balanced fiscal budget and a healthy Schumpeterian innovational economy.

President Obama alone cannot return us to those sounder conditions. New generations of voters will have to fight that good fight.

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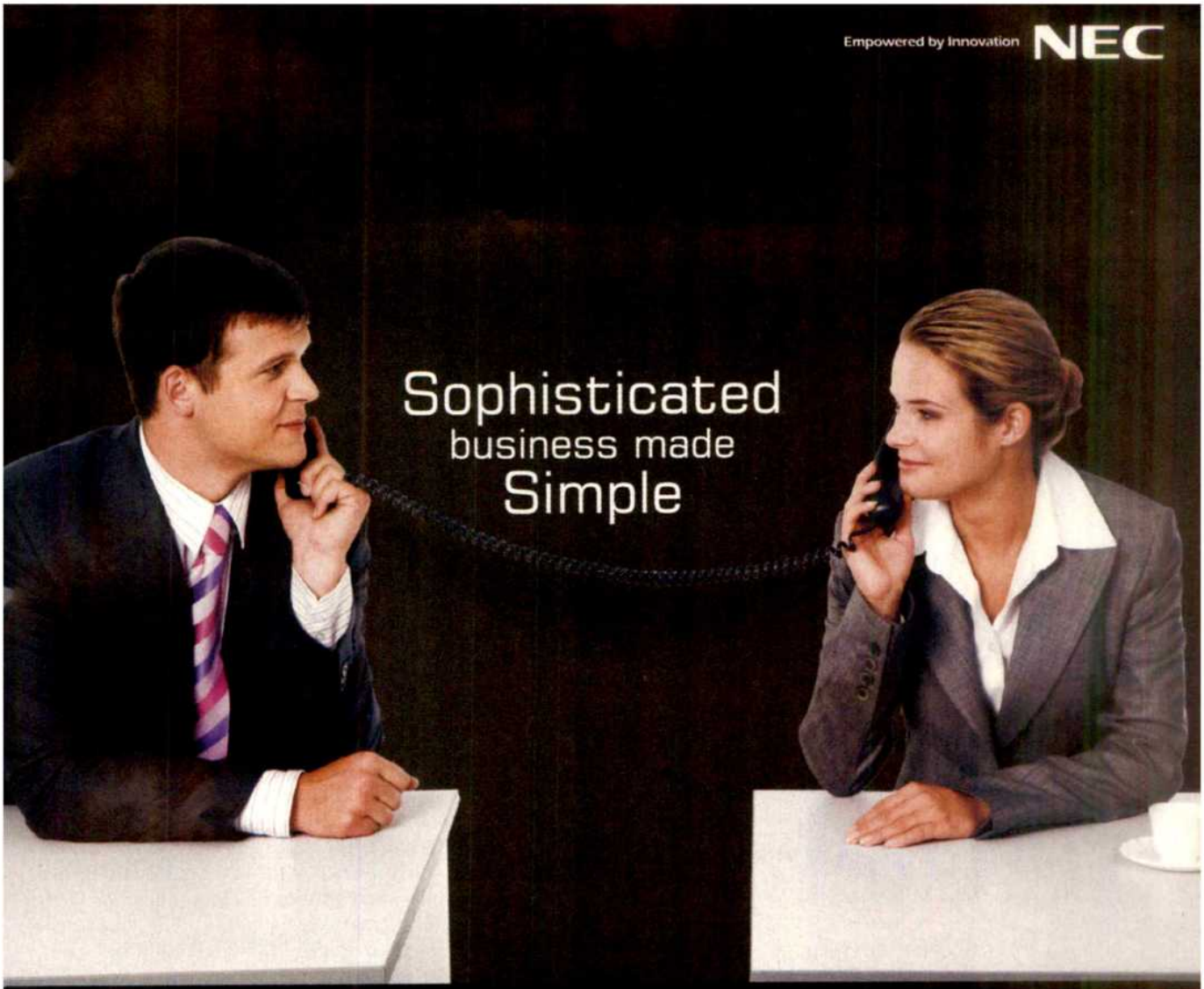

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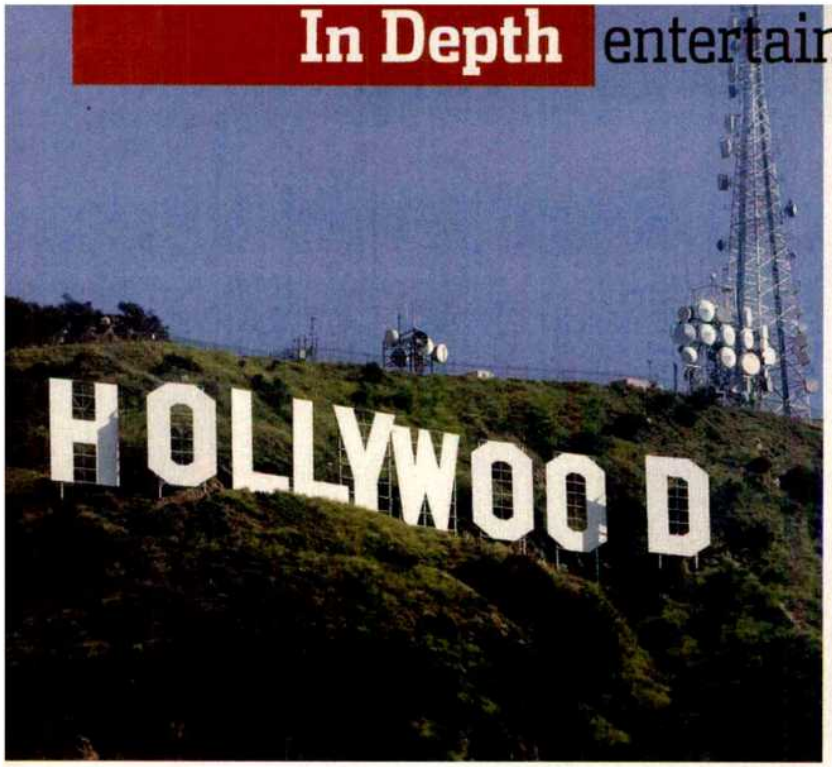

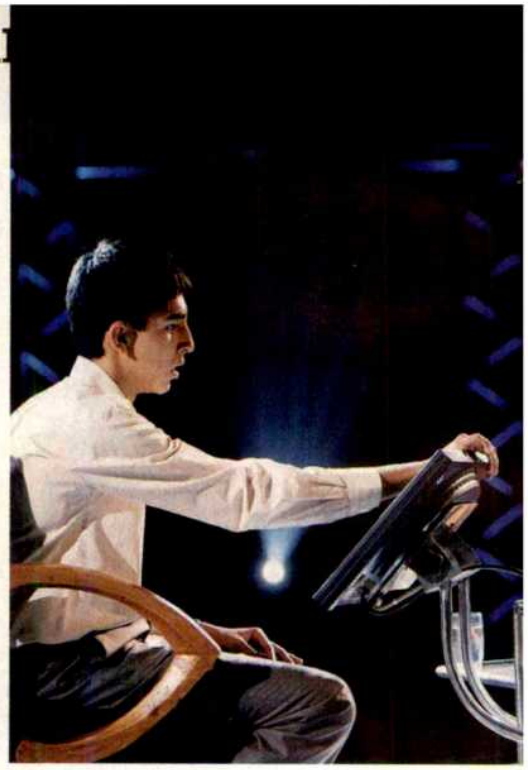

Riding The Eastern Tide

by Gurbir Singh

Hollywood studios are betting dollars on Bollywood and India

RUPERT MURDOCH'S STAR NETWORKS HAS BEEN twice lucky in India. *Kaun Banega Crorepati* (KBC), the all-time television hit and adaptation of *Who Wants To Be A Millionaire* was first offered to Sony Entertainment Television (SET) way back in 2000 by rights-holder Celador of UK. When SET turned it down, Star grabbed the show and things have never been the same again in the world of Indian television. More recently, Warner Brothers was in the running to produce the successful *Slumdog Millionaire* (ironically, with a KBC storyline!), but Celador produced it and Fox Searchlight, a group company of Murdoch's Newscorp, bagged the distribution rights for North America and, through India's Fox Star Studios, for the subcontinent.

Does Slumdog then spell the start of a new wave? Are Hollywood studios attempting to leverage the India factor for their Indian and foreign audiences? Note that Slumdog is not a Bollywood film but has done very well in India too. "In the first two days, we grossed Rs 3 crore, as compared to just Rs 1.8 crore for the hit *Rock On*," says Vijay Singh, CEO of Fox Star Studios.

TASTING SUCCESS: Fox Star distributed the recently released *Slumdog Crorepati* in India

Directed by Briton Danny Boyle and funded by Celador and Film4 of UK, all its key players, including chief cinematographer Anthony Dod Mantle and editor Chris Dickens a part of the team assembled by Boyle, Slumdog made most of its money from foreign markets.

But even before the advent of Slumdog, most Hollywood studios had announced elaborate India plans in recent months. The Fox Star Studios joint venture that kicked-off in October last year has more than just Slumdog... on its schedule. "We have signed a deal for co-producing two films with Vipul Shah," says Fox Star chief Vijay Singh. "We have four films for this year in the pipeline and we will ramp it up to 8-10 [films] a year."

"We want to participate in the Indian cinema scene," echoes Andy Bird, president of the Walt Disney International. "But rather than just stamping our Disney brand, we want to produce 100 per cent Indian movies."

A Great Deal

Fox Star Studios says it has a two-pronged strategy. The first is the traditional acquisition model where completed or in-the-pipeline film projects by local producers will be bought out and distributed by Fox Star Studios. The second, says Vijay Singh, will be development deals with local Bollywood directors where the studio will participate in all aspects of film-making, including vetting the script and choosing the cast.

"We also have plans for Home Video distribution as well as remakes of the Fox portfolio of films," Singh adds. "With a strong distribution and marketing set-up, we will become a one-

PHOTOGRAPHS: AP

stop shop for Indian producers."

Meanwhile, after co-producing the animation film *Roadside Romeo* with Yash Raj Films last Diwali, Walt Disney Company plans to release five more films in India over the next 18 months. Besides a second animation movie with Yash Raj, Disney will go solo with four live action films — *Zokomon*, directed by Satyajit Bhatkal and *19th Step* starring Kamal Hassan. The names of the remaining two films have not been disclosed yet.

Similarly, Warner Brothers released 1,400 prints of *Chandni Chowk to China* (CC2C) in 30 countries. The Akshay Kumar-starrer was expected to repeat the successes of *Singh is Kinng* and *Ghajini* but with opening collections of just Rs 45 crore and poor response from the second week on, the film disappointed. Nevertheless, that has not deterred Warner from signing up another 8-10 film projects for 2009, investing between $5 million (Rs 24.5 crore)-$20 million (Rs 98-crore) in each of them. The studio has signed a 3-film deal with People Tree Productions promoted by Nikhil Advani and Mukesh Talreja, and another with Chennai-based Soundarya Rajnikanth's Ocher Studio for five films in Tamil and other South Indian languages.

"We want to make wholly locally conceived and executed films," said Richard Fox, vice president of Warner Brothers International at the New York premiere of CC2C.

The Plot Thickens

According to Smita Jha, associate director of Price Waterhouse (PW) and author of Ficci's annual yearbook on media and entertainment, the new Hollywood business model has been spoken about for one or two years but is unfolding now. "This had to happen," Jha points out. "Hollywood has experience with the model that de-risks business with a larger portfolio of films and that closely monitors costs and expenses."

The new investments by the Hollywood studios represent the second wave of corporatisation being seen in the Indian film industry. Indian film-making, and Bollywood in particular, has for long been associated with an 'informal' model of making movies with funds raised at usurious rates and often involving hot money. A change was triggered when, in May 1998, film-making was recognised as an industry and bank capital was made available to it for the first time.

However, Bollywood resisted corporate accountability and, by 2005, a number of corporate majors that had announced their entry with much fanfare either went belly up like Amitabh Bachchan's ABCL, or exited hurriedly like Tata Infocom and the Kumarmangalam Birla-promoted Applause. It remains to be seen whether the Hollywood studios will make a difference to Indian film-making, coming as it does at a time when funding pipeline for Bollywood movies has begun to dry up and actors fees' have taken a dip.

At the same time, Fox Star Studios' Singh points out the huge business opportunity India represents, considering it accounts for 1.6 billion box office admissions a year, which makes it equivalent to the US market. "The studios are not interfering with the content and creativity," says Jha. "They intend to bring in value by generating in-film ad placements, marketing and promotion."

The Indian film industry, despite being the most prolific producer of films — averaging around 1,000 movies a year of which Bollywood contributes 25 per cent — generates barely $ 2 billion (Rs 9,800 crore) annually in revenue terms. A Ficci-PwC report projects this market's size at Rs 17,600 crore by 2012.

But it is the recession gripping the West that has hurried Hollywood's search for alternative markets. "They said they were being bullied by their boards to set up shop in India," says Smita Jha, based on her interactions with Hollywood executives in Los Angeles. "It is not a luxury for them, but a necessity."

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Filmi Fundas

Fox Star Studios: Distributed *Slumdog Crorepati*. Currently has a two-film deal with director Vipul Shah.

Warner Bros.: Has a three-film and a five-film deal with People Tree and Ocher Studio respectively. Total investment — Rs 200 crore.

Walt Disney Co.: Will produce two films with Yash Raj Films and four live action films by Disney. Total investment — Rs 250 crore.

Sony Pictures: Worldwide distribution rights of British Nandy Communications *Meerabai Not Out* and another three-film deal. Will invest Rs 300 crore.

GENE SEQUENCING

The Game Changer

by P. Hari in San Francisco

Paradigm altering gene sequencing technology is getting more accessible

GAINING MOTION: The cost of gene sequencing has fallen significantly, and will fall enough to bring the benefits of sequencing to the masses

WHEN A PART OF YOUR BUSINESS IS TO DEAL WITH data, it might seem appropriate to be seen physically rubbing shoulders with Google. But for the moment, the Mountain View, California-based Complete Genomics is an end-to-end entity on its own, developing the hardware and software for high-speed gene sequencing. When available later this year, its systems are supposed to reduce the cost and increase the speed of gene sequencing to hitherto unknown levels, thereby making this revolutionary technology accessible to low-cost laboratories around the world.

Complete Genomics is an unusual company in one respect. Although it is developing high-speed sequencers, it is going to use them to provide a service. Those who sell genome sequencing equipment — established companies such as Roche and Illumina — are also advancing rapidly but using different technologies. However, the major surprise in the field is being provided by a few start-ups. For example, by mid-2009, Complete Genomics promises to sequence a genome in a day, and for just $5,000. Compare this with the Human Genome Project, which by the year 2000 had taken 13 years to complete, and consumed $2.7 billion.

The term 'next-generation technology' is one of the most widely-used clichés in the world of industry. It usually means nothing because the advances are incremental most of the time. But in gene sequencing, the term is meaningless for an unusual reason: the rapidity of change. Gene sequencing technology is now improving at such breath-taking speed that it moves from one generation to the next in the blink of an eye. If you extrapolate from this trend, it will become a commonplace technology in biology and drug research labs in a few years. Says Samir Brahmachari, director-general of India's Council of Scientific and Industrial Research, "Low-cost sequencing is a boon for countries like India where the diversity is large."

A quick look at history will reveal how quickly things have moved in the sequencing industry.

The initial budget estimate of the Human Genome Project was $3 billion. During the 13 years of the project, costs fell so much that it saved $300 million. In the year 2000, if the project had started fresh, the budget would have been just $50 million. In June 2007, the company 454 Life Sciences (now part of Roche) finished sequencing the genome of Nobel Prize winner James Watson in two months for about $1 million. The current estimate of the sequencing cost is somewhere under $50,000 for a genome, but it will plummet in a few months.

The California-based Applied Biosystems, for example, launched a platform last October that is supposed to enable $10,000 sequencing, but it has not clarified by what date. Helicos BioSciences, based near Boston, has announced that it will bring down this cost — again without specifying the date — to $1,000. Another start-up, the Philadelphia-based BioNanomatrix, is working on a project to bring down the cost to $100 in about three years. Whatever the precise date, one thing is certain: genome sequencing technology costs are coming down to levels that small labs and even individuals can afford. What does this mean to people and businesses?

In many biology research projects, and particularly in drug development, it helps to know the genetic make-up of the entire genome of an individual. However, the time and cost of sequencing are still prohibitive, and biologists usually look at variations in only parts of the genome, at a few places that are most likely to vary. Sequencing is also a complex activity, which is one of the reasons why Complete Genomics is offering it as a service. "Sequencing data is too complex for an unqualified person to analyse," says Clifford Reid, managing director of Complete Genomics.

A cheap, quick and simple way (for the user) to sequence the entire genome would be a true game changer in biology. It would be big business too. Consider what some companies do even with current tools. Silicon-Valley-based 23andMe offers genome analysis for just $399. You order a kit, spit into it, and send it away. In about 10 weeks, you can log in and look at an analysis of your genome. The firm looks at only some hotspots and not the entire genome, but the service has become very popular in the US. In a few years, firms could analyse your entire genome at this cost. Sequencing would be part of every drug development study. It could even be part of a hospital visit for clinical diagnosis.

Interestingly, the technologies that make this possible are quite varied, with each firm developing what it believes to be the best approach. Complete Genomics, for example, looks at groups of the genetic alphabet instead of one by one, somewhat like the way Google searches for keywords on the internet. Helicos BioSciences uses what is called single molecule sequencing, the first such method in the industry. In sequencers by established players such as Roche and Illumina, the DNA is first amplified many times before it is sequenced. Helicos has developed the technology to chop up a single strand of DNA through its machines and get a read-out, eliminating the amplification process. "True single molecule sequencing is fast and accurate," says Helicos's Chief Scientific Officer Patrice Milos.

BioNanomatrix, on the other hand, is using nanotechnology. In this method, the DNA strand is passed through tiny tunnels 100 nanometres across on a chip. These tunnels can force the double strands to unwind, and the long stretch of DNA is then read out. However, as in any method, the reading process is complicated and requires deep data analysis. In fact, data from gene sequencing is increasing at such a rapid rate that it is providing an opportunity for IT and bioinformatics companies to build a business. Indian company Strand Life Sciences has tie-ups with John Hopkins University and Illumina to develop data analysis technololgies.

Complete Genomics is now building 200 machines that it can use in as many centres. A lab can then send samples to one of its centres and then get an analysis report a few days or weeks later. In the near future, it will open its offices and centres in India and China too. By that time, gene sequencing technology would have begun to rewrite drug development.

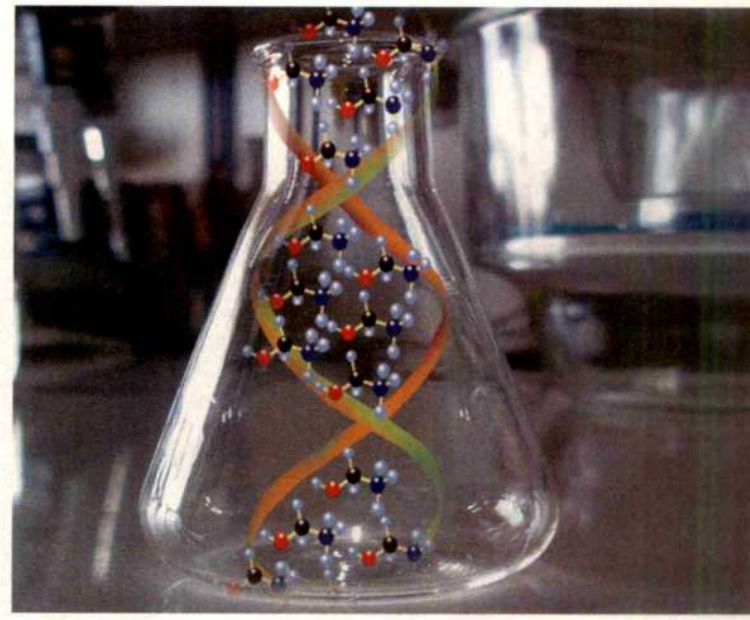

ILLUSTRATION: SATKAR J. YONZON

OPPORTUNITY WINDOW: The rapidly changing sequencing technology could immensely aid drug discovery research in the next few years

Tech Talk

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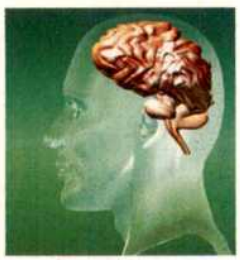
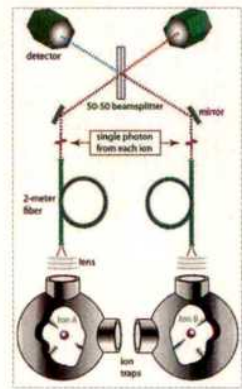
Music For The Brain



Serotonin, a neurotransmitter, whose variations can cause neuropsychiatric conditions is regulated by the serotonin transporter protein (SERT) in the brain. During a study, Randy Blakely of US-based Vanderbilt University Medical Centre discovered that while most mice possessed a version of SERT called ER, a number of strains were of another type called GK. The mice with GK had higher iron levels. Iron is required to synthesise serotonin. But SERT had not been previously known to control brain iron levels. The discovery could lead to more effective medication for neurobehavioural disorders.

Quantum Leap

Teleportation is nature's most mysterious form of transport — quantum information can be transferred without travelling through any physical medium. It has been achieved between photons and ensembles of atoms before. But neither provides a feasible means of holding and managing quantum information over long distances. Now a team from the Joint Quantum Institute at the University of Maryland and the University of Michigan has succeeded in teleporting information between two separate atoms in unconnected enclosures a meter apart, a significant step towards workable quantum computing.



UNIVERSITY OF MARYLAND INFORMATION

Fuelling Growth

Biofuels competing for agricultural resources is a major concern. An alternative is to use non-food plants grown on non-agricultural land. Scientists at the US Department of Energy's Brookhaven National Laboratory and their Belgian colleagues at Hasselt University have identified plant-associated microbes that help sustain plant growth on marginal lands. They isolated and identified 78 endophytic bacteria that act as growth promoting hormones in plants to increase biomass production by 50 per cent.

HOW THINGS WILL WORK

Taming The Deafening Decibels

IMAGING: SATKAR J. YONZON

INTO THE SILENT ZONE: Aeroplanes that do not make noise and consume lesser fuel could soon be a reality

AIRCRAFT DESIGNERS HAVE A LOT OF things to take care of, but for a long time, noise was not one of them. However, they started to do so as air traffic increased and residents near airports began to object vigorously. Now a silent plane — or a comparatively near-silent one — is an object of development in some labs around the world.

There are two parts of the plane that create noise — the engine and the airframe. The engine makes noise because hot air suddenly comes into contact with the cold air outside. Air also creates noise when it flows rapidly over the frame. Aircraft designers are trying to overcome these problems in several ways. One recent project, conducted jointly by MIT in Boston and Cambridge University in the UK, has come up with a design that makes no more noise than a washing machine.

The researchers have squashed the fuselage so that the entire aircraft acts like a wing and provides lift. The engines have been moved to the back of the plane instead of hanging from the wings. These design modifications change the airflow enough to reduce noise dramatically, but they have another interesting effect: much less fuel is consumed. In fact, a 214-passenger plane would not burn more fuel than a contemporary hybrid car.

After the project, MIT won a contract from NASA to design quieter planes. This is a $2-million grant for an 18-month preliminary study to design an aircraft that can enter service by 2030. This date seems far away, but the aircraft design is so radical that they need time to test all the concepts, including an entirely new landing approach.

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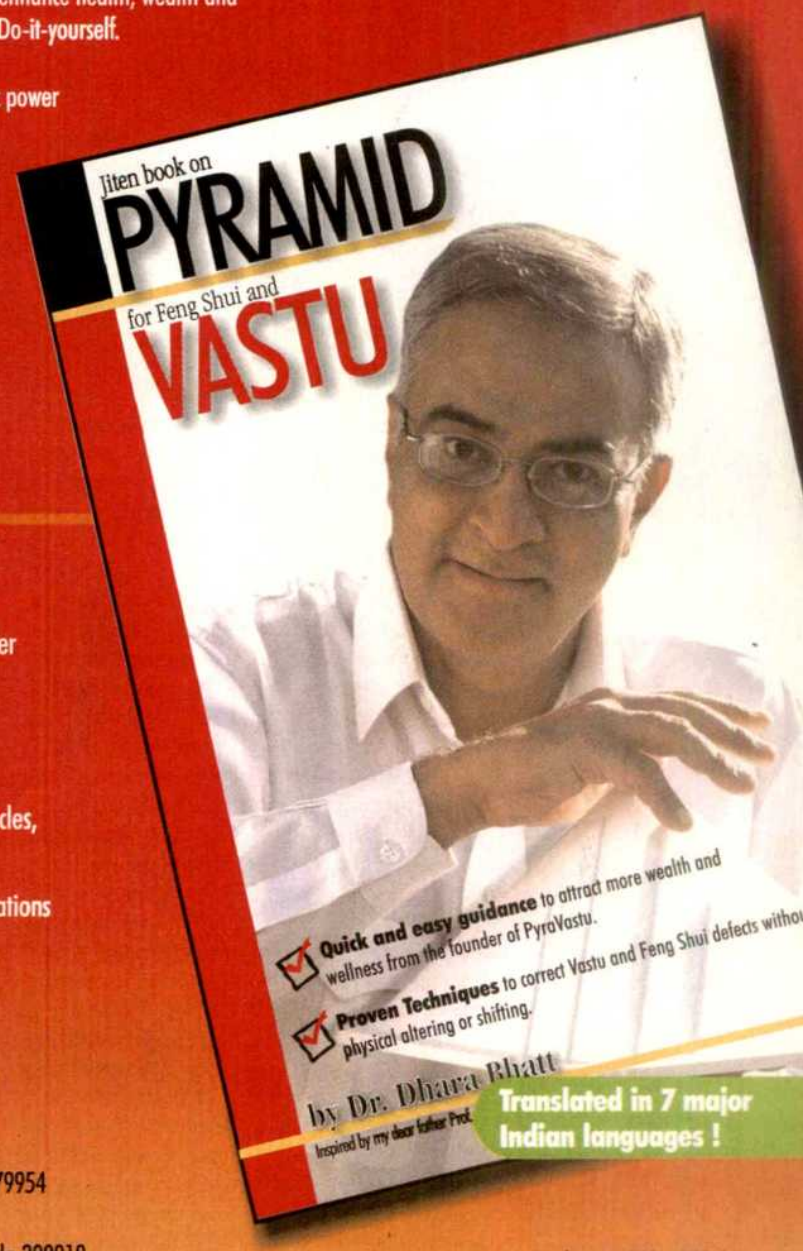

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NANOPARTICLES

Golden Brew

AMIT VERMA

GREEN ROUTE: Experts say that the technique of brewing gold nanoparticles from tea may also find applications in Ayurveda

A team of Indian scientists 'brew' silver and gold nanoparticles in tea

INDIAN CHEMISTS HAVE turned to the kitchen to create one of the most promising materials of recent times — nanoparticles. Researchers at the Visva-Bharati University in West Bengal have 'brewed' gold and silver nanoparticles using black tea leaf extract. These tiny particles, with dimensions in the nanometre scale (one nanometre is a billionth of a metre), have a variety of applications in a range of industries, including photonics, catalysis and pharmaceuticals.

Though scientists in the past too have devised eco-friendly means to synthesise gold and silver nanoparticles, this one stands out due to its simplicity: it involves a process that most kitchens in the world are familiar with — tea making.

Scientists at the university, led by Debabrata Mandal, found that when chloroauric acid, a naturally occurring compound of gold, was stirred with black tea broth for half an hour at near-room temperature, the nanoparticles are precipitated in the solution. A similar reaction involving silver nitrate resulted in the production of silver nanoparticles.

"We were a bit surprised to see the metal nanoparticles of varying shapes and sizes emerging from the solution," says Mandal, who works with the spectroscopy lab of the university. The scientists found that the same class of biomolecules that provide tea its health-promoting properties — polyphenols — is responsible for the synthesis of the nanoparticles.

Though there have been a number of methods for creating metal nanoparticles, many of the reactants and starting materials used in these reactions are toxic and potentially hazardous, says Mandal. Naturally occurring biomaterials, on the other hand, provide a safe alternative. Mandal gives credit to researchers from the National Chemical Laboratory (NCL) in Pune for finding a green route to synthesising the nanoparticles. Since the 2000s, Murali Sastry, then an NCL researcher and is currently Chief Scientific Officer with Tata Chemicals, and his colleagues have been showing that extracts from plants such as geranium and lemon grass, and certain microbes can aid the production of nanoparticles of gold, silver and other metals such as palladium.

The properties of nanoparticles depend on their shape and size. For instance, nanotriangles (or nanoprisms) can find applications in catalytic converters that convert carbon monoxide to carbon dioxide, in biosensing techniques (where they are used to label DNA fragments), and even in future cancer therapy.

Mandal says that his team has been able to obtain a cocktail of different shapes and sizes in the range of 20 nanometres.

According to T. Pradeep, a chemistry professor at IIT Madras, who developed India's first water filter capable of trapping pesticide residues with the help of gold and silver nanoparticles, which was brought to market about two years ago by Eureka Forbes, the chemical reaction is not surprising. But he says that nanoparticles with different shapes do not have much industrial potential. "In case specific shapes of gold can be made (not a collection of various shapes) by varying synthetic parameters, it would be helpful," he says. One area he thinks it can have immediate application is 'gold-laced tea' and ayurveda preparations where gold is used in trace quantities.

Mandal admits the drawback, but is hopeful that they may be able to refine the process to produce nanoparticles of identical shapes.

T.V. Jayan

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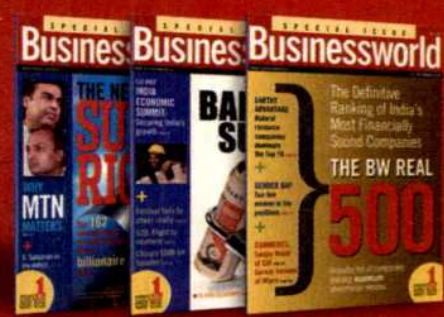

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CHILDCARE

Branded babies

The entry of foreign players sees the market flooded with the best in babycare products

By Janhavi Abhyankar

WITH MAMAS AND PAPAS SPORTING GUCCIS AND Pradas, could tiny toddlers be far behind? So what if the little sleeping beauties are going to grow out of jackets worth Rs 10,000, between bouts of nappy changes and feeds? For today's uber rich couples it is sacrilegious to think practical when it comes to shopping for their coochie-coos. They want nothing but the best for them.

There was a time when preparations for the stork's arrival would begin with overseas visits by prospective parents and hoarding of Huggies diapers and Pampers. Uncles and aunts living abroad chipped in to replenish the stock at regular intervals as *desi* stores offered nothing but Johnson & Johnson baby oil and powders in the name of baby care products. The entry of Wipro with its talcum powders and shampoos in the 1990s didn't do much to change things either. For variety, one still had to look West. And then came the internet bringing the best closer home.

Now there is no need to order even online as your nearest shopping

KID'S PLAY: Pampering has taken on a new meaning now

PHOTOGRAPHS: TRIBHUWAN SHARMA

QUALITY WISE: Baby cutlery is designed with a tiny grip in mind

mall has all the cute and stylish accessories that any new age parent may want to buy for their babies.

Today even feeding bottles are not just simple plastic containers with a nipple on top. They come with a kit of sterilisers and warmers and some are anti-colic too. It is simply not enough to boil the bottle in a pan to ensure a germ-free feed. There are electric steam sterilisers available, which do that with greater efficiency and panache. While on the move, you just have to plug in your baby's auto bottle warmer into the car's lighter socket to warm the milk. The bottle handles are made such that the child's little fingers fit in perfectly for that firm grip. There are 'wash or toss' cups, which come with insulation for temperature control and specially-designed straws to prevent the child from hurting his mouth.

Then there are ergonomically-shaped bath tubs, which let you hold your baby at just the right angle for a safe bath. With options aplenty, the only thing limiting can be your imagination.

Even those born with silver spoons in their mouths are no longer fed in silverware, but in bright-coloured pots and plates with animal motifs. The chi-chi parents buy organic stuff not just for themselves but also for their babies and companies such as the UK-based Nuby have entered with an array of products in the Indian market to cater to precisely such requirements.

Another company planning to make a foray into this Rs 1,500-crore industry, growing at the rate of 20 per cent per annum, is Dutch consumer durables major Philips. On to a big push in the medical segment, the company is bringing its Avent brand of mother and childcare products in the Indian market. With Avent coming in, Indian parents will be able to get their hands on plush infant bath pads, which can give their kids a safe and cozy bath experience, and adjustable bath storage baskets with separate storage panels for soaps, shampoos and toys. Having created a niche in the gift and cards segment, market leader Archies too is toying with the idea of making uber cool accessories and room décor products for kids.

The luxury comes at a price but the enthralled young moms are not complaining. They balk at nothing and don't think twice before buying a stroller, which is easily worth the price of a bike. It comes with features such as a rotatable front and braking rear wheels, suspensions, canopies, cushions, foot slip-covers and armrests. If it is rocking your baby has got used to, there are prams and swings available in every possible shape, colour and style. "I buy all the stuff for my 6-month-old son from branded stores, as it gives me the guarantee that I am using the right product for the right stage," says Rohini Singh, a mother and homemaker.

The upwardly mobile middle-class too is becoming conscious of the advantages of carrying the baby around in diapers and is slowly coming round to giving up on home-made nappies. A whole new market in diaper bags and carriers has thus sprung up, which simply did not exist earlier.

The Louis Vuittons and the Guccis have always been there but now mid-segment players such as Fisher Price and FunSkool have entered the field to fill a yawning gap. Spoilt for choice, it is definitely the Indian baby's day out.

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DRINKS

Tanking on tequila

THINK OF MEXICO, panama hats, boots and pistols and you can't help thinking of tequila. It is macho, it is exotic and it is alluring. Part of the romance associated with tequila — for those who tuned in late, it is a beverage that contains up to 40 per cent alcohol — has to do with the massive play around its name.

Rock instrumental band The Champ's 1958 number Tequila had nothing in the name of lyrics of the song but this word repeated endlessly. The music so fired the imagination of listeners that it became an intrinsic part of the American pop culture. Even in India since then, no true Punjabi wedding is complete without the Tequila number blaring at least once.

Surely, there is a lot in this name. But its popularity mainly reflects the enthusiasm of tequila-drinkers. There are about 600 brands of tequila registered by some 128 producers across the globe.

Originally from the western part of Mexico, the quick shots of this drink can lift a party anywhere. Made from the fibrous plant agave, it is not a drink one can nurse. It is meant to be gulped down in one go, with a dash of lemon and salt if one likes.

GETTING HIGH: Bars are experimenting with Tequila-based drinks

And now there are tequila recipes as bars are busy clubbing this drink with chocolates, blueberries, gingerale and even olives!

Janhavi Abhyankar

Happy New Year: People gather near an Ox statue for a souvenir photo at the Ditan temple fair in China to celebrate the Year of the Ox.

ART

Varied hues

UNLIKE OTHERS WHO are content with just wielding the brush, US-based Indian artist Siri Khandavilli traverses a whole gamut of art genres — painting, video art and installations. Her ongoing exhibition titled Two Birds — at Open Palm Court Gallery in New Delhi's India Habitat Centre — provides one an opportunity to witness the avant-garde trend of video installations.

These are exhibited in enclosed areas, with circular openings at eye level, integrating technology into the art experience. Khandavilli has made two videos for this particular show. The first is called Two Birds and features the artist's face on two screens in an enclosure. The second depicts a drive through the mountains and is titled Shares Set to Rise. Here she compares the cliffs and troughs with the ups and the downs of the stock market.

INNOVATIVE ART: Khandavilli's exhibition includes video installations

Explaining the inspiration behind her work, Khandavilli says, "This work originated on one of my many drives amidst the beautiful Ahwatukee mountains in Arizona, where I live. During these drives I listened to financial news on the radio. The silhouette of the mountains and the stock market's graphs gradually started looking similar to me." The same idea has also been depicted by her in an acrylic-on-paper painting. Like her videos, Khandavilli's paintings are colourful and show a deft juxtapositioning of the material and the metaphysical. The exhibition is on till February.

Shalini S. Sharma

BON VIVANT

Hidden treasure

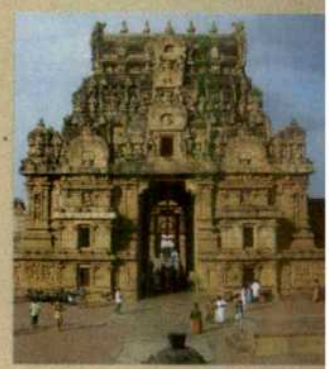
FEW IN BANGALORE KNOW THAT JUST 40 KMS AWAY from the city stands an architectural wonder that has failed to get the attention it deserves. The Bhoga Nandeeshwara Temple, an hour's drive from the new airport, is over 1000 years old.

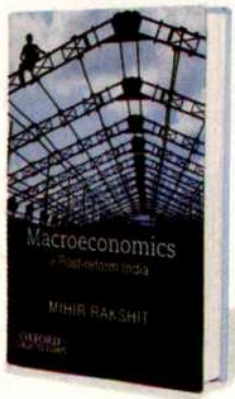
A small village called Nandi Hills manages to hide the ancient shrine. Built in solid rock, the temple is divided into two complexes. The main temple in the first complex, houses three different mythological deities, in small rooms not taller than six-feet each.

It is a masterpiece of Dravidian architecture, taking the best from the various dynasties that ruled the region. Founded by the Banas in the ninth century, the roof was built by the Cholas in the eleventh century. The marriage hall in the main complex was the handiwork of the 'Hoysalas' in the thirteenth century and the second complex — a large aqueduct and the boundary walls were created by the 'Vijaynagar' Kingdom in the fifteenth century.

Till a few years ago, this historical treasure was completely at the mercy of the locals. It was only after the ancient solid gold carvings on the 'stupa' were stolen, that the Archaeological Survey of India woke up. It took the shrine under its wing in 2006 and has since spent Rs 30 lakh on its restoration. The department also evicted the many squatters next to the main complex and has enlarged the temple boundary to its original size. The stone chariot and the old wells around the temple have also been restored.

Vishal Krishna



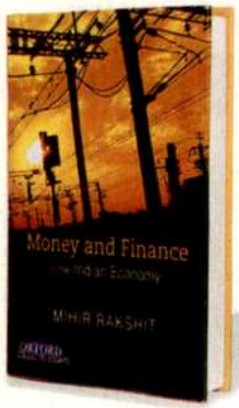


Unconventional Wisdom

by noemie bisserbe

MACROECONOMICS OF POST-REFORM INDIA, PAGES: 263; PRICE: Rs 695

MONEY AND FINANCE IN THE INDIAN ECONOMY BY MIHIR RAKSHIT, OXFORD, PAGES: 284; PRICE: Rs 695



MIHIR RAKSHIT'S TWO NEW VOLUMES CHALLENGE many conventional views on the reform and liberalisation process in India. Rakshit argues that the weakening of the country's external balance that led to the 1990-91 crisis began in the 1980s when the Indian government initiated several measures of liberalisation of imports and private investment, and the rate of public investment was cut back. It was not, he writes, linked to operations of public sector undertakings, or to a widening of the trade deficit (which in fact showed a mildly declining trend in the second half of the 1980s). Similarly, contrary to conventional wisdom, private investment did not suffer from the large fiscal deficit and rising public debt.

After the 1990-91 crisis, which led India to adopt 'willy-nilly' the International Monetary Fund-approved programme of economic reforms, the adoption of prudential norms and capital market reforms actually had a negative impact on the efficiency of the country's credit delivery system, writes Rakshit.

Using telling evidence, Rakshit shows how orthodox macro-economic reasoning may not necessarily prove relevant to the Indian context, given the characteristics of the country's economy, and how the inability of policymakers over the years to diagnose the "malady" of the Indian economy has led to major policy failures.

More importantly, Rakshit points out issues that need to be addressed when considering the sustainability of India's service-led growth, and also suggests major policy initiatives. First, the government should develop an effective credit delivery system to increase productive investments by small and medium enterprises, especially in the unorganised sector. Second, it needs to invest more in irrigation, roads, railways, communication, ports and power to stimulate private investments.

These essays written over the past 15 years, often in response to problems and policy debates, cover practically all major macroeconomic developments in India as the country transitioned from a planned to a market-oriented economy. In MACROECONOMICS OF POST-REFORM INDIA, Rakshit analyses the genesis of and lessons from the 1990-91 payments crisis that led to the adoption of the reforms programme, the different phases of post-reform macroeconomic development, the nature and sustainability of services-led growth and India's two inflation crisis in 2004-05 and 2006-07.

Rakshit emphasises the significance of agriculture, infrastructural bottlenecks, absorption of labour in the unorganised sector, and large-scale financial dualism as particularly important in the Indian context. He analyses the main drivers of the Indian macroeconomy, underlines the role of different sectors and their connections, and draws analytical and policy conclusions, often in sharp contrast with conventional wisdom.

The volume also includes a chapter that presents an overview of the major economic schools of thought to provide readers with some perspective, so you don't need to be a proficient economist to understand and appreciate Rakshit's analysis. Although some chapters are a bit redundant, the author's analysis of pre-reform India and the payments crisis remains the most gripping essay.

The second volume, MONEY AND FINANCE IN THE

MIHIR RAKSHIT is director of the monetary research project at Kolkata's Investment Information and Credit Ratinging Agency, and Editor-in-Chief of *Money and Finance*. A BA in economics from Kolkata's Presidency College, an MA from the University of Calcutta, and a PhD from the London School of Economics, Rakshit's field of research includes transnational macroeconomics and crises and recovery in developing economies.

BROWSING

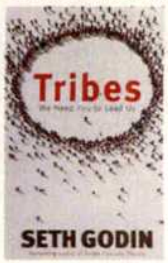
Rajeev Prasad
MD, Phoenix Lamps

I am currently reading Operation China: From Strategy To Execution by JIMMY HEXTER and JONATHAN WOETZEL. This book has reiterated my belief in China. It has shown me some great insights and secrets of their superb execution on par with multinationals. My preferred genres are management, fiction and spiritual books.

INDIAN ECONOMY, focuses on the problems and policy concerns emerging in specific sectors. Rakshit analyses the transition from a situation of credit constraint to one of excess liquidity, the source of fiscal imbalances and the measures for their correction, economic and policy implications of Food Corporation of India's excess food stocks and the rapid build-up of foreign exchange reserves. He looks at the pros and cons of foreign institutional investments, and the strengths and weaknesses of the banking system under the liberalised regime.

While *Money and Finance* may be of interest mainly to economists and students, *Macroeconomics Of Post-Reform India* remains very accessible and gains even more relevance in light of the current economic crisis.

SELECTION 1



Voices Get Louder

TRIBES WE NEED YOU TO LEAD US; BY SETH GODIN PIATKUS BOOKS, AN IMPRINT OF LITTLE, BROWN BOOK GROUP HACHETTE INDIA; PAGES: 284; PRICE: Rs 695

THE IDEA BEHIND SETH GODIN'S LATEST BOOK IS simple: we are all leaders, and we must connect to our 'tribes' using new technologies, old-fashioned tools such as story telling and through passionate, committed leadership.

The trouble is that the ideas in *Tribes* do not flow quite as easily Godin's previous books. While it is easy to read, Godin tends to get stuck on the central idea, and repeats it far too often. Also, he could also have used more recognisable examples and case studies. This is important because story-telling is — as Godin himself points out — a method of creating and connecting a tribe.

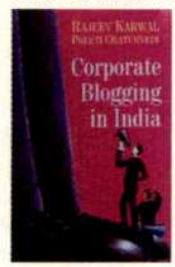
That said, the central idea comes through loud and clear: everyone is a potential leader. What a leader needs is passion, commitment, drive and connectivity to a committed tribe. Modern technology has made this possible — think Twitter, Facebook or blogs. Arguably, it was Barack Obama's committed tribe, working across the US, connected by all sorts of new tools that helped him win the election.

What lessons does Godin's new theory and book have? Well for one, it seems that there is an immense opportunity for tribes to form across geographies, uniting people to work together. But there are some niggling questions too. Let us take Obama's case for example. Will his voters now expect an instant response from the White House now that they have put their leader in it? Such demands may well result in less thought-through, less reflective, more knee-jerk and possibly more dangerous responses.

And what does the book mean for India? Will our increased connectivity — mainly through cellphones — create communities of mobile users looking for a leader? Will public opinion on areas such as the economy or terrorism, or even more mundane such as garbage control, now be decided via SMS votes? Current leaders (CEOs, CFOs, presidents, politicians) watch out — there are tribes increasing all around you.

—Sanjay Bhade

SELECTION 2



Undeniable Force

ALL THOSE WHO FEEL BLOGS are not yet a force to reckon with should read CORPORATE BLOGGING IN INDIA by Rajeev Karwal and Preeti Chaturvedi. The statistics are revealing and insightful.

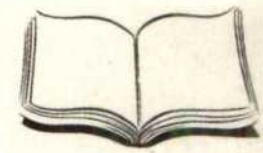
According to one MSN survey, the most popular Indian blogs are those authored by business leaders and, hold your breath, more than 75 per cent of all bloggers are men. Women may contest that, but going by the sheer size of the community — there are over 1 million bloggers in India — blogs are an undeniable force. The authors have obviously done a lot of blog reading and have come up with interesting examples of companies that use their blogs to various effects.

While it is neatly structured, one does wish that Karwal and Chaturvedi went beyond corporate blogs and included some of this country's more popular personal blogs as well. For instance, the caricature at the beginning of Chapter 4 titled 'The New B of Marketing' is deceptively similar to Amitabh Bachchan, and it carries other allusions as well. However, the book does not talk about his blog — bigb.bigadda.com — perhaps one of India's most popular blogs. Also there is no mention of the trend of celebrities being paid in crores to post blogs on particular websites.

Nevertheless, *Corporate Blogging* is worth a flip-through.

—Shalini Sharma

ALERT



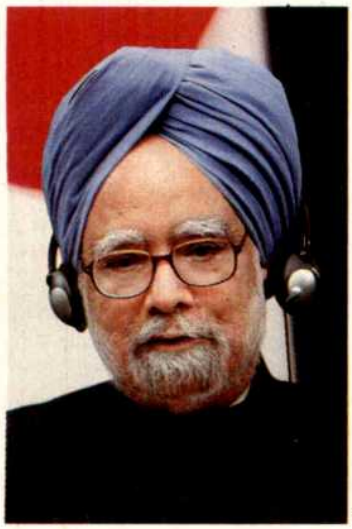
THE MYSTIC ARTS OF ERASING ALL SIGNS OF DEATH: A NOVEL

BY CHARLIE HUSTON BALLANTINE BOOKS

Charlie Huston's menagerie of the absurd returns in a book that promises much laughter, surprise, gag reflexes and perhaps tears. *The Mystic Arts* centres around a slacker, Webster Fillmore Goodhue, who has been recruited into a company that cleans up locations where, let's just say, people left behind a bloody mess. Along the way, we are introduced to Webster's friends and colleagues — each of them gifted with deliciously hapless, if strangely appealing characters — such that Huston has now become famous for. This is novel English writing that truly is well, truly novel.

Infectious Optimism

THE INDIAN ECONOMY HAD GLORIOUS GROWTH for four years ending in 2007-08. It was an ideal time for the government to improve the fiscal and the payments deficits; instead, it went on merrily worsening both. Conversely, indications of a slowing Indian economy were there from the middle of 2007; but the government ignored them till they were too stark. The result is that the government is far less capable of taking corrective action today than it would have been if it had been a bit less improvident.



AP

The advisors of the PM have bought into the campaign of the financial brokers that the crisis will go away after a brief flirtation with India

This is the kind of error that the Economic Advisory Council to the Prime Minister was perhaps formed to prevent. The Prime Minister felt that he needed the best objective professional advice that he could get; that is why he appointed the best economists he liked to his Council. It has established the admirable tradition of placing its biannual reports on the web, so that the public can see precisely what advice it gives to the Prime Minister.

The most striking element of its latest report is its overriding good cheer. GDP is declining in the United States and the European Union. Many economists think that the current downturn in the west is exceptional and may portend a serious depression like in the 1930s. The PMEAC disagrees with these fears; it thinks that the vigorous fiscal and monetary measures taken by Western economies will shorten the downturn. In its view, the decline will last another six months at the most, and that both will begin to grow again in the latter half of 2009.

India is having a downturn of its own. The growth rate of GDP is declining, manufacturing output is no longer growing, and credit growth is falling. The PMEAC thinks that if advanced economies recover, India cannot lag far behind; its growth too would resume its rise towards the end of the year. It believes that India has improved since the reforms in ways that will save it: its businesses are more resilient, its banks better funded, its consumers less dependent on debt, and its savings extraordinarily high.

This optimistic line has been being sold energetically by financial brokers who make their livelihood out of India. The more foreigners invested in India, the more these brokers made. The better India's prospects looked, the more foreigners invested. Hence brokers made them look better, even when they were getting worse. The same line was taken by P. Chidambaram, who promised 9 per cent growth whatever happened. After he was removed, the Prime Minister took a slightly less mindless line. But his advisers clearly do not put much store on realism and caution; they too believe in India ueber alles.

This is all right for people whose salaries and pensions are paid by the government. But the common people have to live in the real world. They would be better advised to look at the facts given by the PMEAC rather than its forecasts. First, as the world economy slumps, imports are becoming cheaper, and the demand for exports is declining. As a result, the balance of payments is worsening. As world capital markets are in a turmoil, less investment is coming to India; all inflows other than direct investment fell in April-September against the previous year. Second, manufacturing output is either stagnant or declining; October output in ten industries out of 17 was lower than a year before. Manufacturing prices have fallen, which indicates excess supply. Third, demand deposits, which businesses use to make payments have fallen; this too indicates that the volume of business is shrinking. Finally, cheque clearances fell in October and November — another indication of business shrinkage.

Thus, a range of official statistics suggests that the Indian economy is declining. The reason why the PMEAC has not noticed this is that it has looked at too few of the figures that were as available to it as to us; and the reason why it did not look at them was that it knew its mind, just like the many cheerful commentators on the Indian economy. Its report may seem to be a part of an optimistic conspiracy; but the truth may turn out to be more mundane. Official reports are usually written by some joint secretary who acts as the secretary of the council. He is often a graduate of Orissa university or some such; his experience is in file pushing. When he has to produce a 70-page report, he looks up similar reports produced by official and unofficial writers; so what he produces looks like what everyone else has said. But consensus is not proof of authenticity. In this case, it is only proof of laziness, and possibly caution: it is better to be wrong in the company of everyone than to be right against everyone else's judgment.

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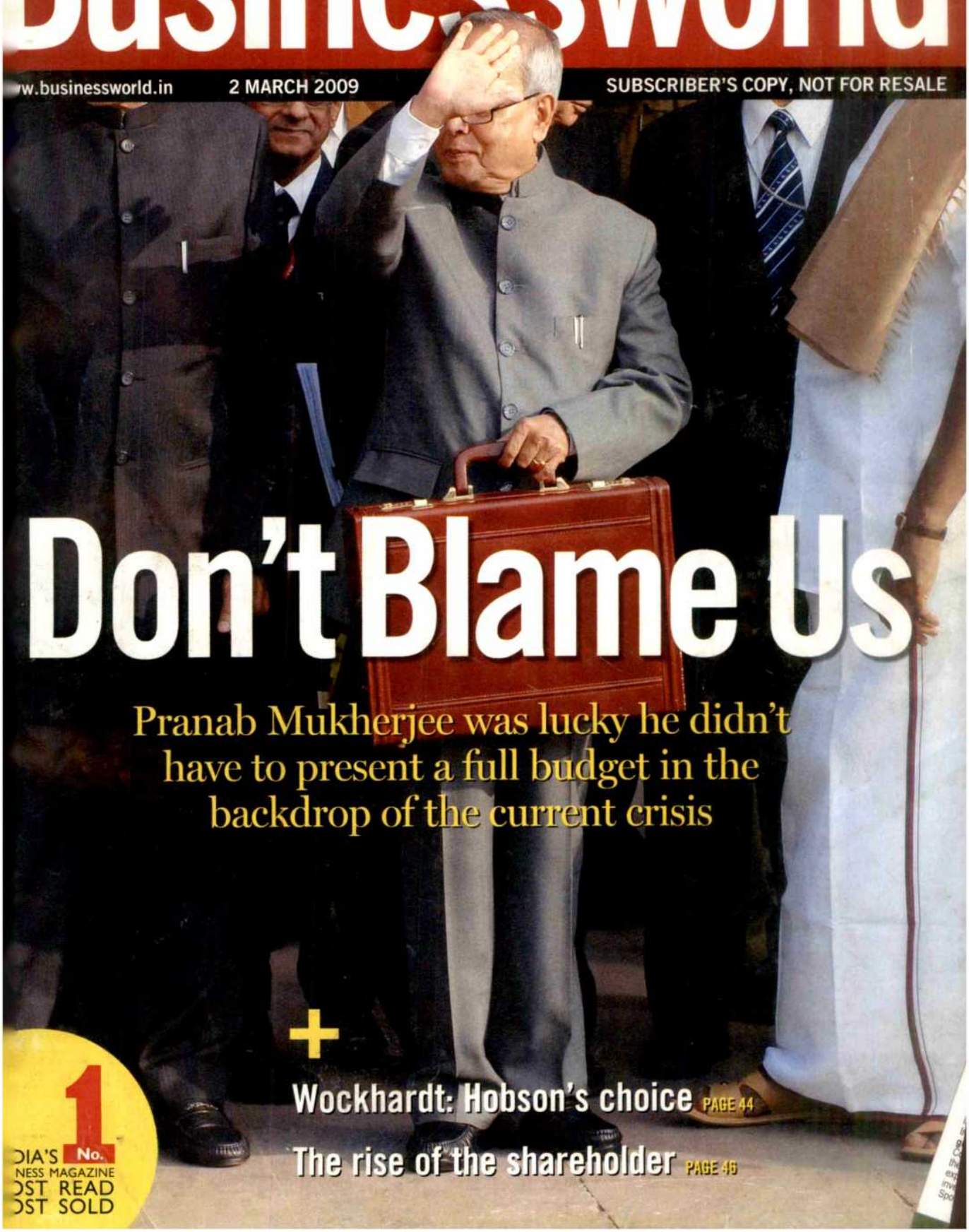

Don't Blame Us

Pranab Mukherjee was lucky he didn't have to present a full budget in the backdrop of the current crisis

+

Wockhardt: Hobson's choice PAGE 44

The rise of the shareholder PAGE 46

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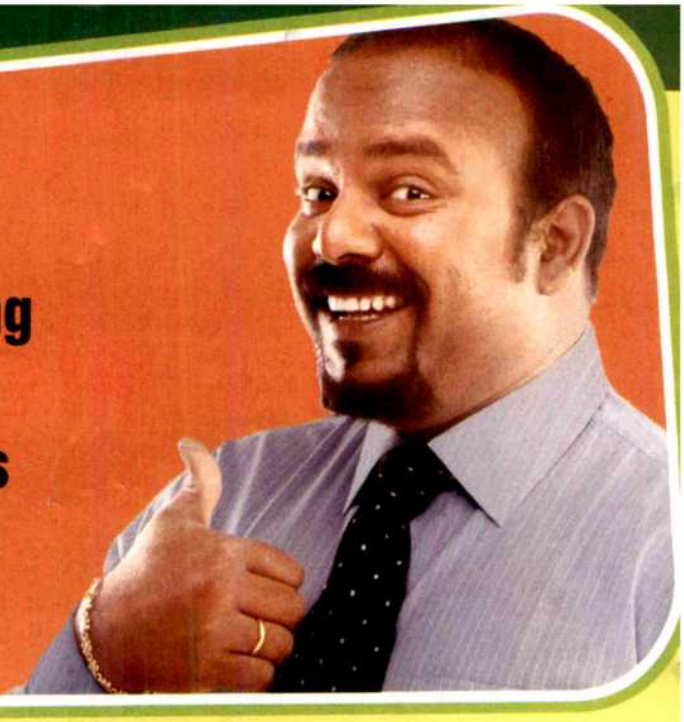
Why are people investing *several lakhs* in Sundaram BNP Paribas Tax Saver?



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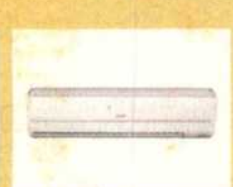

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Misplaced Hope

MUCH BEFORE PRANAB Mukherjee rose to make his speech on 16 February at Parliament, most corporate leaders, economists and economic journalists knew very well that the finance minister would not be presenting a proper budget — merely a vote-on-account. He could not present a proper budget simply because the elections were to be held in a few months' time, and the rules dictated that an outgoing government could only present a vote-on-account or interim budget so close to the elections. Trying to deviate from the norms would have attracted much flak from the Opposition. More importantly, given the nature of the coalition, the government didn't have much hope of getting a proper budget passed, even if it wanted to.

So why was there so much widespread disappointment with this budget even among those who knew full well that this was never going to be a proper one? Perhaps the reason was the economic backdrop against which this budget was being presented. With the Indian economy being buffeted by the tailwinds of the global economic crisis, most people wanted the government to do more — whether it had the powers or not.

It was irrational, of course, to hope for anything more from the UPA government at this juncture. Apart from the rules which would have prevented it from presenting a big, sweeping budget aimed at combating the crisis, there was the whole question of ideas. Whatever ideas it had to combat the crisis had already been unveiled in the two stimulus packages it had announced much before the budget. In the run up to the budget, it had also, suddenly, relaxed FDI norms in a host of sectors in the hopes of attracting some foreign investment. (It is a highly misplaced hope, given the global scenario.) If it had any further ideas about how to get out of the current mess, those ideas would probably have been announced long before the budget presentation was made this year.

But hope is never rational and the feeling of disappointment was perhaps natural simply because in terms of extra-ordinary crisis, people tend to harbour unreal confidence in their government's abilities and intentions. The problem was that this budget lived up to everyone's expectations — it merely did not live up to anyone's hopes.

Prosenjit Datta

prosenjit datta, editor

Businessworld

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I, Shyamal Mukherjee, hereby declare that the particulars given above are true to the best of my knowledge and belief.

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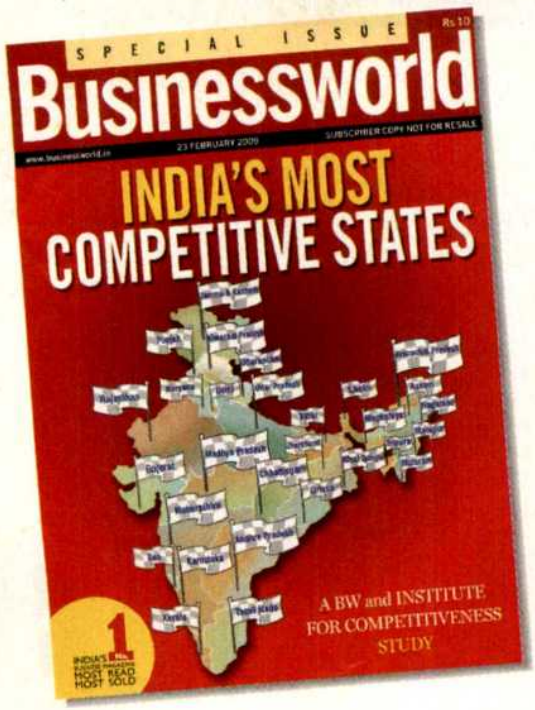

Checking On Facts

BW's effort in analysing and ranking of the states ('India's Most Competitive States', *BW*, 23 February 2009) is laudable, but not quite convincing. Tamil Nadu and Karnataka have been ranked second and fifth, respectively. But the WEF global rankings on competitiveness, based on 14 parameters for 2007, give India a ranking of 48, in which Karnataka and Tamil Nadu rank low on the five topmost problems for doing business in India.

K.S. Krishnamurthy, Bangalore

Maharashtra's No. 1 position in the state rankings is now under threat. Firstly, because Maharashtrians are asking for reservations and secondly, Gujarat and Tamil Nadu are catching up fast.

Prashant Rajput, Warrangal

WRITE IN AT
bweditor@abp.in
or post us on
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Nagarjuna Replies

With reference to the article 'Partners in Crime' (*BW*, 2 February 2009) we refute all the allegations made against Nagarjuna Construction Company (NCC). We wish to state that NCC's promoters are not related to Ramalinga Raju in any way. Also, the allegation that NCC's balance sheet has financial twists similar to Satyam's is wholly unfounded and baseless.

On the issue of joint ventures, NCC has submitted a number of bids either on its own or along with joint venture partners, other than Maytas. We have also partnered with Maytas, but it has not been our sole partner. With regard to Hyderabad Metro Project, you have unnecessarily attempted to link NCC in the controversy which essentially involves Maytas.

On the issue of bank balances, as per Schedule VI of the Companies Act, 1956, there is no requirement for a company to give the names of the scheduled banks with which it has transactions. Actually, the balances lying in the accounts of non- scheduled banks work out to Rs 19.70 crore and not Rs 40 lakh as mentioned in the article.

The letters of credit, corporate guarantees and other contingent liabilities, which have been referred to under the head of 'Contingent Liabilities' in the annual report, are usual to the construction business and not peculiar to NCC alone.

P.L. Murari, Joint general manager, Corporate Comm., Nagarjuna Construction Company

Faster Results

'Transparency Matters' (*BW*, 23 February 2009) draws a sensible analogy between India's Serious Fraud Investigation Office and the US and UK investigating agencies. The Indian agencies need to realise that the longer they take to investigate financial frauds such as Satyam, more associated problems will keep cropping up. It is time to fix a 'deadline' for the case and get the judgement out.

Ashok Jayaram, Bangalore

Corrigendum

In 'Southern Success' (*BW*, 23 February 2009) American Megatrends India was referred to as American Megatrends Inc. The error is regretted.

Letters may have been edited for brevity.

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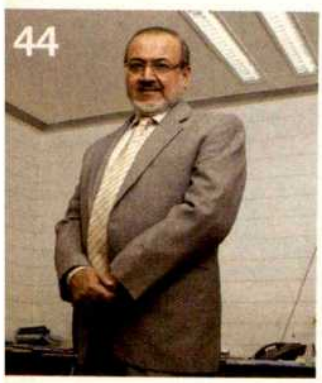
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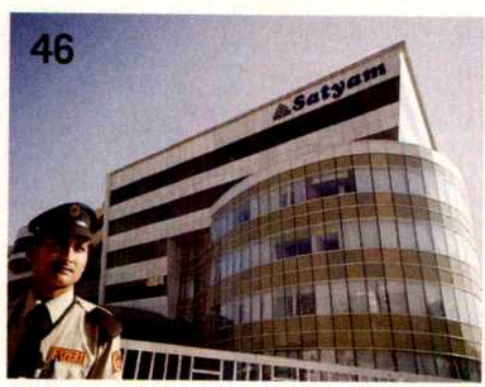

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GLOBAL ECONOMY

Border Control

Why the 'Buy American' clause is intrinsically flawed in its logic

AP

CHARITY BEGINS AT HOME: Obama's stimulus package shuts out non-Americans

WILLY-NILLY THE world has come to realise that what is bad for the US is bad for the world — just look at the economic devastation around in the aftermath of the US financial implosion. But what is proving to be rather contentious is whether what is good for the US is good for the rest of the world.

Barack Obama has got ordinary Americans rallying behind the 'Buy American' condition in his $787-billion economic stimulus package. While much of the economic benefit of local infrastructure built with this package will accrue to the Americans only, its import-restriction is fraught with many unintended consequences.

For one, restricting competition for material, manufacturing and men would result in inefficiencies and inflated prices and the Americans will eventually get a lot less for their $787 billion than they could get without such blatant reservation. Moreover, the 'Buy American' policy could make the US industry complacent and less competitive globally. That is if the others are still prepared to buy American.

Importantly, this one act of barb-wiring the US economy could considerably de-link it from the rest of the world, something that many economies desired during the boom period, but are now very afraid of.

Rather than threatening retaliation, the world is reminding the Americans of the economic depression they landed in the 1930s after following trade-stifling prescription of senators Reed Smoot and Willis Hawley.

Probably, the more important question is: if it is not good for the world, can it be good for America?

Feroz Ahmed

33 billion dollars. The loss suffered by the Government of Singapore Investment Corporation in 2008

QUOTE OF THE WEEK **"India will definitely arrange for a dialogue if the LTTE lays down arms."**

— Home Minister P. Chidambaram

STOCKMARKETS

Target Practice

Sebi's order against Shankar Sharma smacks of vindictiveness

CONCERNS ARE BEING raised about the quickness — and the vindictiveness — with which the Securities and Exchange Board of India (Sebi) banned Shankar Sharma, head of First Global Stock Broking (FGSB), from trading for one year. On 13 February, Sebi's whole-time member M.S. Sahoo passed the order using the emergency powers under the Sebi Act, saying Sharma indulged in synchronised trading in 10 stocks on some days in January-March 2001, which were detrimental to the interests of investors and the market.

Curiously, the order came immediately after newspapers reported that Sharma obtained specific data from Sebi under the Right to Information (RTI) Act, which showed that FGSB did not figure in the top 50 sellers in February-March 2001, the period investigated by Sebi to determine the cause of the market crash in 2001.

Sebi has suddenly used emergency powers to issue an order about Sharma's alleged synchronised trades, whose sizes were a small quantum of the overall trading in the 10 stocks in 2001. But why is Sebi silent on its action against the actual large sellers during that period? Are the allegations of Sebi's going after FGSB and Sharma being a long-running witch-hunt true? These questions need to be answered by Sebi.

Rajesh Gajra

HEMANT MISHRA

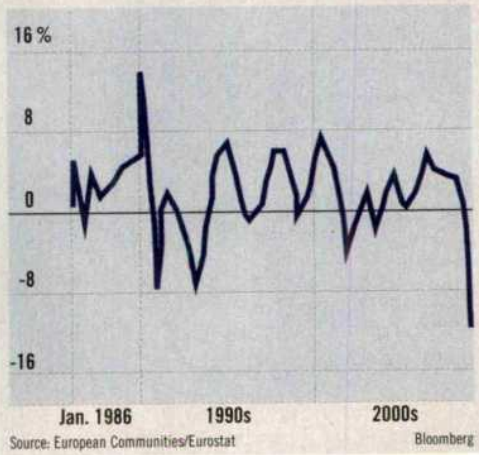
OLD FOE: Shankar Sharma is a man Sebi loves to hate

Global NEWS

This should inspire power-hungry leaders. On 15 February, Venezuleans voted in a referendum that puts an end to term limits for elected officials. Earlier, the constitution allowed the President to rule only two six-year terms, but from now on, President Hugo Chavez can stay in power as long as he keeps winning elections.

OUTPUT DECLINES

European industrial production dropped the most in December 2008, pointing to a deepening economic slump in the fourth quarter.



Source: European Communities/Eurostat — Bloomberg

DEFENCE

WIN SOME, LOSE SOME

IF MILITARIES MARCH ON STOMACHS, then this interim budget has armed the Indian forces well. Their revenue budget, which accounts for salaries and allowances besides routine operating expenses of the forces, has been raised by 50 per cent — from Rs 57,593 crore to Rs 86,779 crore. Clearly, the impact of the pay revisions by the Sixth Pay Commission is evident.

The disappointing side of the deal for the forces is that they are not going to get their wish of a motherload of modern weaponry, at least for another year. Their capital budget has gone up by only 14 per cent, from Rs 48,007 crore to Rs 54,924 crore, most of which is already committed to paying for weapons ordered in the preceding years.

Clearly, in an election year, the government is happier arming the *aam aadmi* and infrastructure with sops. Acting Finance Minister Pranab Mukherjee seems to be hoping to hold off the wolves through belligerent words alone. Hope and pray that he gets lucky.

Feroz Ahmed

Flanchetto

The week's strategic moves and the movers who made them

BLOOMBERG

Turbulent measure
Singapore Airlines (SIA) is cutting 11 per cent of its operating fleet as passenger traffic slipped. SIA will ground 17 of its 102 passenger aircraft by March 2010, instead of four as originally planned, the airline says in a release. "We will contemplate retrenchment only as a last resort, but we need to act on some measures quickly," says Chew Choon Seng, CEO of SIA.

Hard deal
Japan's biggest chip maker Toshiba Corp. is buying the loss-making hard drive unit of Fujitsu for an undisclosed sum. While the deal would free Fujitsu from a string of losses, Toshiba expects its market-share to jump three times to 20 per cent by 2015.

Three-in-one
RPG Group-promoted Zensar Technologies plans to overhaul its India business by expanding into three new segments — healthcare, supply chain and logistics. The Mumbai-based company expects to treble its revenues from India business to Rs 1,000 crore over the next three years.

Digital move
Qualcomm Ventures, the venture capital arm of wireless technologies and data solutions firm Qualcomm Inc., has invested $9 million in MapmyIndia, a digital maps and navigation services provider.

Temporary relief
Jet Airways has signed two agreements with Oman Air to lease A330-200 aircraft on a 'wet lease' basis, for a period of six months each. As per the terms of the lease, the operational control and maintenance responsibility of the aircraft remain with Jet, the airline says in a statement.

BLOOMBERG

Mining potential
China's Minmetals is buying Australian miner Oz Minerals for 2.6 billion Australian dollars ($1.7 billion or Rs 8,293 crore). "Minmetals will provide a robust platform for Oz Minerals to realise its growth potential when market conditions permit," says Zhou Zhongshu, chairman of Minmetals.

BLOOMBERG

Joint venture
Hyderabad-based HBL Power Systems has signed an agreement with Saudi Arabia's Advance Electronics Company and Abdullah H. Al Shuwayer & Sons T&C Co. to form a joint venture. The new venture, Gulf Batteries Company, will set

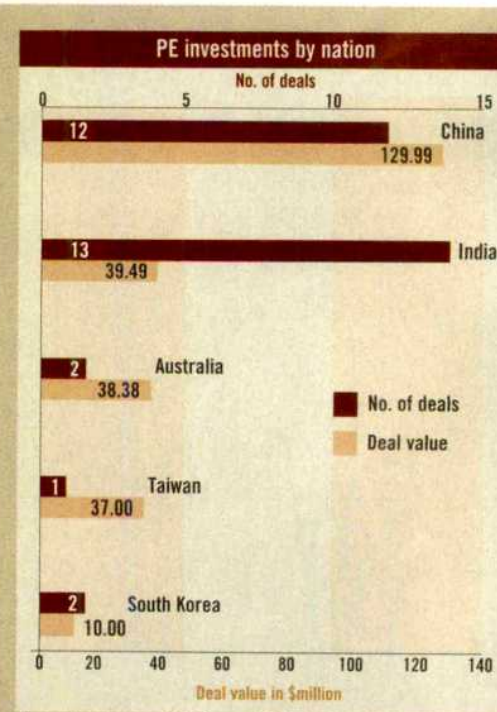
BW-THOMSON REUTERS PE DEAL TRACKER

$254.85 million The value of the Asian private equity market, which witnessed 32 deals as of 15 February. China was the largest market in the region with 12 deals worth $130 million.

Top India deals

TARGET	INVESTOR	NATION	DEAL SIZE ($M)
STel Communication	Undisclosed investor	US	225.00
Sarovar Hotels & Resorts	Bessemer Venture Partners, New Vernon Private Equity	US, Mauritius	8.50
Appnomic Systems	Norwest Venture Partners	US	4.10
GETIT Infoservices	Helion Venture Partners	Mauritius	4.00
MindTree	Nalanda Capital	Singapore	3.19
Apnaloan.com Services	JAFCO Investment, Sequoia Capital	Singapore, US	NA
Global Talent Track	Helion Venture Partners	Mauritius	NA
High Mark Credit Information Services	Battery Ventures	US	NA
ValueFirst Messaging	New Enterprise Associates	US	NA
Si2 Microsystems	VenturEast, JAFCO Investment	India, Singapore	NA

Figures for 11 January-14 February 2009



Figures for 1 January-15 February 2009

up a unit in Saudi Arabia to make industrial batteries at the cost of $28 million. HBL's equity in the venture will be $2.9 million.

Telecom tie-up

Mumbai-based Hirco Developments has signed an agreement with Tata Teleservices for setting up telecom infrastructure at its integrated township and proposed special economic zone (SEZ) projects in Chennai. As per the agreement, Tata teleservices will provide complete telecom solutions to the tenants and residents of Hirco's projects including a fibre optic network, voice and data services, wi-fi hotspots, broadband services and wireless services.

Pledging stake

AAA Communications, one of the promoters of **Anil Ambani**'s Reliance Communications (RCom), has pledged about 272.3 million of the 1.31 billion shares it holds in RCom. The shares amount to 13.19 per cent of the company's total equity capital. As of December quarter, AAA Communications held 63.38 per cent stake in RCom.

TRIBHUWAN SHARMA

BLOOMBERG

Deep-water exploration

State-owned ONGC has tied up with US oilfield services company Weatherford International to enhance production from mature fields. As per the pact, both the companies will collaborate on near-term production enhancement solutions, optimisation of reservoirs and production systems, data and information management and deep-water exploration and exploitation, among others.

Brand value

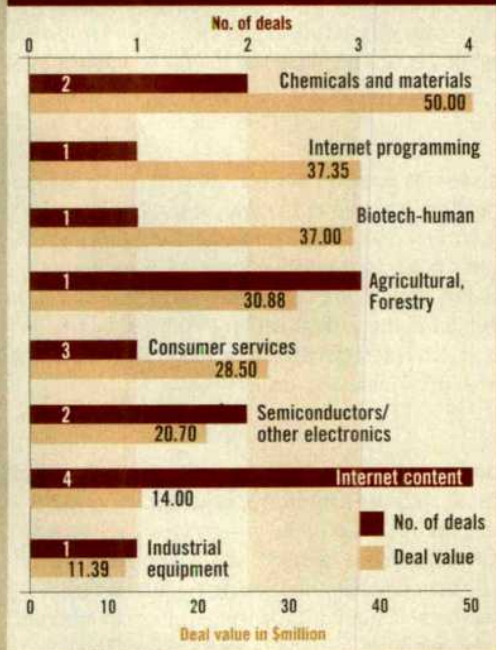
Brandhouse Retails, a subsidiary of S. Kumars Nationwide, has tied up with Italian apparel brand Oviesse. The two companies will set up 190 stores across India over the next five years. Brandhouse will own 62.5 per cent in the joint venture.

New revenue streams

Chennai-based Paramount Airways has a novel plan to increase revenues. It is launching an all-encompassing cargo division. "It will be for door-to-door cargo service and will be introduced under the brand name 'Paramount'," says Chairman **M. Thiagarajan**. The airline transports 100 tonnes of cargo every day from one airport to another.

SANJAY SAKARIA

PE investments by industry



Figures for 1 January-15 February 2009

Top Asia deals

TARGET	NATION	INVESTOR	NATION	DEAL SIZE ($M)
Straits Resources	Australia	Standard Chartered Private Equity	Singapore	30.88
Shanghai Insuring Polymer Materials	China	Spring Capital Asia	Hong Kong	10.00
Appnomic Systems	India	Norwest Venture Partners	US	4.10
Beijing Mobile Multimedia Co.	China	Shenzhen Capital Group Co.	China	4.10
High Mark Credit Information Services	India	Battery Ventures	US	4.10
Majitek Pty	Australia	Cisco Systems	US	4.10
MCarbon	India	Canaan Partners	US	4.10
Si2 Microsystems	India	JAFCO Investment	Singapore	4.10
MindTree	India	Nalanda Capital Pte	Singapore	3.19
GETIT Infoservices	India	Helion Venture Partners	Mauritius	4.00

Figures for 25 January-14 February 2009

Note: Sum invested is actual money taken down or disbursed to portfolio companies. PE deals are classified as investments where the investor is a PE firm. The above tables do not include investments made by angel investors, hedge funds, trusts and corporate investors. Such investors are taken into account only when they have invested alongside PE firms.

Log on to www.businessworld.in for the complete list

Quick Take

Will the index of industrial production fall any further?

We asked... Rajeev Anantaram, senior fellow, Icrier; Sarabjit Kour Nangra, vice-president, research, Angel Broking; D.K. Josh, chief economist, Crisil; R. Venkatesan, senior fellow, NCAER; Anshuman Magazine, chairman and MD, CB Richard Ellis; Kunal Banerjee, president , ICWAI; N.S. Venkatesh, MD and CEO, IDBI Gilts; Tarun Joshi, MD, Brandhouse Retail; Anil Dhar, vice-president, business development, AuthBridge; Shalini Chawla, research fellow, Centre for Air Power Studies; Amit Azad, director, Azad Financial Services; Kishor Ostwal, MD, CNI Research; Sankaran Naren, CIO, equity , ICICI Prudential AMC.

"The IIP will fall further as the interim budget has done nothing to boost the sentiments."

Anil Dhar, vice-president, business development, AuthBridge

"Maybe. Infrastructure needs to be enhanced and policy reforms implemented to boost IIP."

Anshuman Magazine, chairman & MD, CB Richard Ellis

"IIP is likely to weaken further as fiscal steps that have been taken will take time to bear fruit."

Sarabjit Kour Nangra, vice-president, research, Angel Broking

Yes 53%

YES BECAUSE: With no strategy spelt out in the interim budget, general election round the corner, a dearth of palpable signs of global revival, the index of industrial production (IIP) will weaken in the balance of 2009. It touched its lowest levels in December 2008. The lead indicators (such as exports) have dipped by some 20 per cent in January; that will certainly have negative effect on IIP. There may be month-to-month variation with some months even going negative. The index will not regain ground in the next five-six months as there is oversupply of goods in the market. However, there are expectations of revival in demand in the second half of 2009. The impact of the fall in interest rates will be felt over the second quarter of 2009.

No 9%

NO BECAUSE: The rural manufacturing and services scenario has not changed much despite a slowing economy. Ninety four per cent of India's agriculture is based in the rural areas, but it constitutes only 54 per cent of the rural GDP. The rest of rural GDP comes from manufacturing and services. The IIP will improve because the fiscal measures taken by the RBI will start showing their positive impact from the next quarter. Sanity will also come back to the US markets, now that they have a new government. Reform policies need to be implemented at the earliest with a firm focus on the manufacturing sector. Although the growth in output of intermediate goods contracted in December, the growth in basic and capital goods were up 4.2 per cent and 1.7 per cent, respectively.

Maybe 38%

MAYBE BECAUSE: The demand situation is not improving and the banks are still wary of lending. India's core infrastructure sector, with a weight of 26.5 per cent in IIP, expanded by just 2.3 per cent in December 2008, lower than the 3.2 per cent rise recorded in the year-ago period. Two key contributors — steel and power — performed poorly. Lower aggregate demand, continuous southward trend in exports and deferred capital expenditure plan by the companies is keeping the IIP numbers low. Also, there was a sharp contraction in the consumer durable output in December. Key contributors such as capital goods and cement are not expected to do well in the coming quarters either. The upcoming election has also shut the windows for more stimulus funding.

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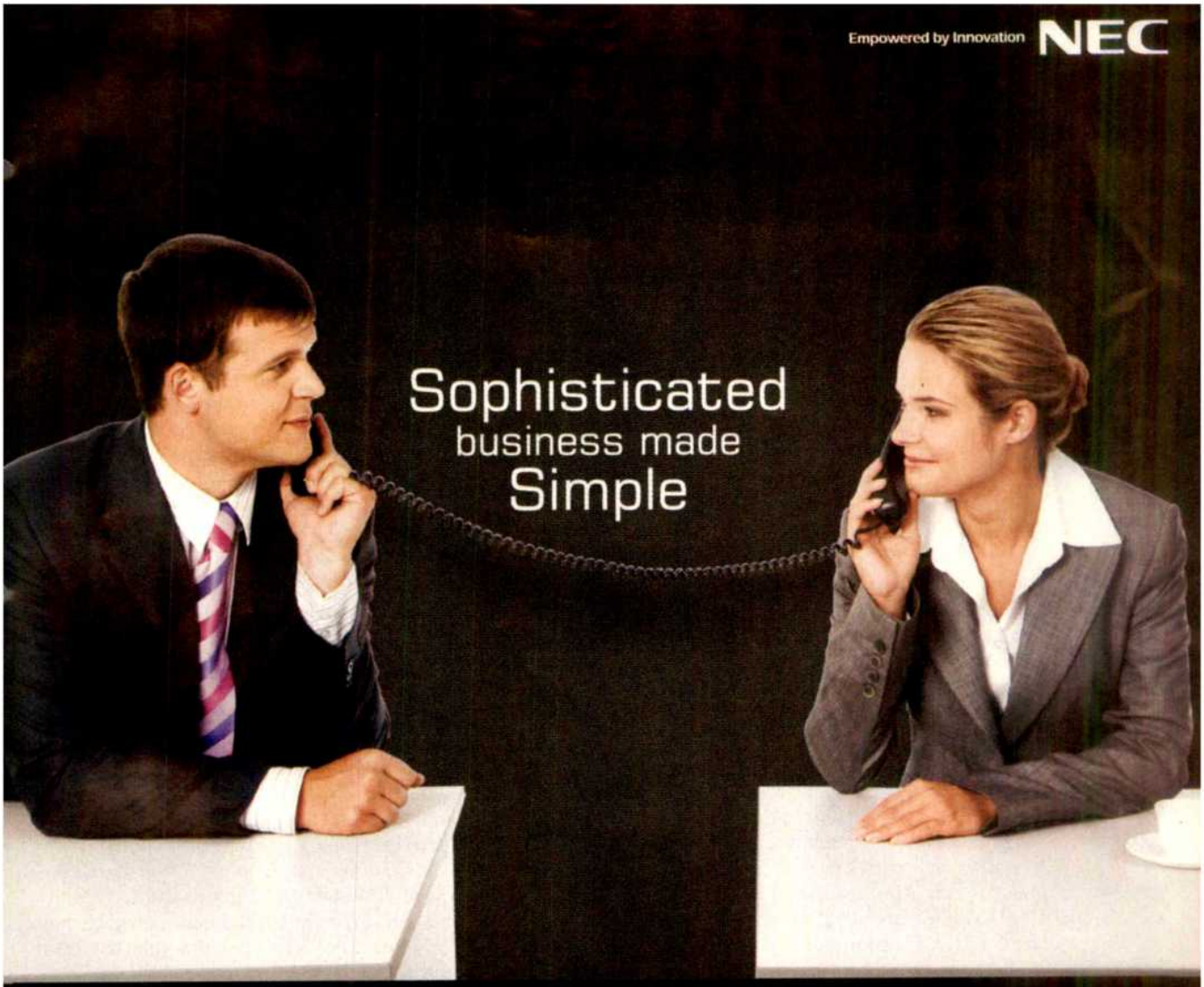

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Half A Solution

by bill emmott

IT FEELS LIKE A SLOW-MOVING GREEK TRAGEDY, destined to end in disaster. But let us be optimistic: perhaps it will turn out to be a demonstration of clever political tactics. I am talking about the rescue package announced and achieved on 10-12 February by Barack Obama's new administration in the US. Despite the dramatic-sounding numbers, this package is likely to be too small and too timid really to solve the US's economic and financial problems. There will have to be another package, perhaps after another financial crisis, sometime in 2009 or 2010.

While trying to prop up private demand, Obama's fiscal package glosses over the crisis of confidence

The right place to start is by defining the US's economic problem. It is experiencing a collapse in private demand, by households and by companies, because they have become too scared to hold high debts and unwilling to spend all their incomes or make investments. They are scared because they think they might lose their jobs, but also because the most fundamental institutions of the economic system, the banks, are reporting huge losses and are actually or nearly bankrupt. And those domestic problems are made worse by the fact that there is now a global recession, which means that the US cannot hope to export its way out of trouble (which it had managed to do in 2007).

To deal with the problem, the Obama administration has come up with half of the solution. To substitute for collapsing private demand, it has produced its fiscal stimulus package, which after much argument and amendment finally passed the two Houses of Congress. The true value of this plan is not clear. Its cost is said to be $789 billion, but that is a cost spread over as much as 10 years. Most of it will be spent in the first two years, however. So, since US annual GDP is about $14 trillion, the package amounts to about 2.5 per cent of GDP ($350 billion) in each of those years.

This combination of spending and tax cuts will certainly help to soften the recession — just as similar fiscal packages softened Japan's slump during the 1990s when it, too, was suffering from a financial crash. But it will produce growth only if the fall in private demand turns out to be less than 2.5 per cent of GDP, which is far from certain. Still, the package is the right approach. There is no serious alternative to running a budget deficit and increasing public debt in these circumstances.

Yet, while this solution of using more public debt is necessary, it is not sufficient. The other part of the solution must be a decisive clean-up of the banking system, in order to allow the economy to start functioning normally again. It was this part that the Obama administration failed to provide during its big February week of announcements.

Timothy Geithner, the new US treasury secretary, proposed a plan to deal with illiquid and non-performing debt at the US banks by using a combination of private and public money. The amounts he mentioned sounded impressive: $500 billion at first, perhaps a total of $1 trillion eventually. But this plan is unlikely to work. This 'toxic' debt is a problem because the market cannot agree on how to price it, so banks are unable either to write it off or to sell it. This leaves both investors and depositors with a huge doubt over the true condition of the banks' balance sheets, and thus their solvency.

Geithner's public-plus-private plan represents a hope that with this limited government involvement, the market will become willing to invest private capital and to provide a pricing mechanism. But in such dangerous economic times, a hope is not good enough. A decisive solution would involve the nationalisation of the US's biggest and sickest banks, combined with a willingness to allow smaller banks to go bust. Nationalisation would allow bad debts to be dealt with as an internal transaction, with no need for a market-based pricing mechanism. It would be capable of convincing households, companies and investors that the worst problems in the banking system were truly over.

The trouble is that it would be politically controversial. It would require Congress to vote to permit the use of a lot of public money to take over the big banks. Eventually, this solution would be cheaper, as many bad debts could later be sold and the cleaned-up banks can be privatised. But the up-front money would be controversial. Either the Obama administration was too timid to ask for it, alongside the big fiscal package. Or it thinks it will be easier to ask for it later.

That might prove to be a clever political judgement. Whether it is a clever economic judgement is more doubtful. By the time the administration asks for this money, the costs will have risen and the economy may well be even weaker.

The author is a former Editor of *The Economist*.
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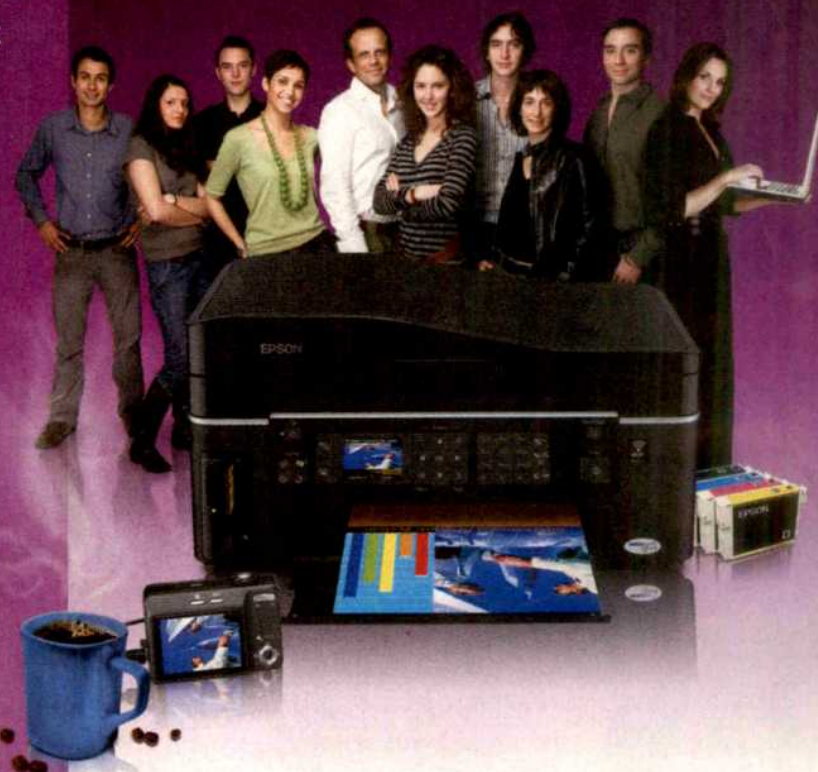

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FOREIGN INVESTMENT

The Confusion Spreads

BLOOMBERG

ALL SMOKE: The new policy allows 100 per cent FDI in cigarettes, but there is no clarity

MORE THAN A WEEK SINCE THE GOVERNMENT'S surprise announcement raising foreign direct investment (FDI) limits across sectors to up to 100 per cent, the flip-flop over which sectors it applies to and which it doesn't has kept companies and eager foreign investors on the edge.

The notification that was supposed to bring clarity to the announcement has only added to the confusion. "The clarity is missing, particularly in retail and other sectors, that would create jobs, if the FDI bar is raised," says Taveesh Pandey, CEO of Black Diamond PE Advisors.

A senior commerce ministry official says, "Minor details are open to interpretations. There are no contradictions. We are here to answer and clarify any queries." But such assurances haven't helped. Take tobacco, for instance. While the announcement allowed 100 per cent FDI in manufacturing of cigars and cigarettes (an area hotly lobbied in to prevent foreign investment), a statement by Minister of State for Commerce and Industry Ashwini Kumar added to the confusion. "A proposal to prohibit FDI in the manufacture of cigarettes... is under consideration of the government," Kumar said in the Lok Sabha on 17 February.

The Centre has left many grey areas unexplained in the new FDI policy

Although the FDI limit has been enhanced, what constitutes FDI still remains unclear despite subsequent clarifications in Press Notes 2 and 3. Corporate lawyers and analysts *BW* spoke to said that composite FDI — as conceived in the revised guidelines for all the sectors, except for those that have been specifically barred — would include direct and indirect foreign investment.

"But new norms are controversial in sectors where FDI is prohibited, or where sectoral caps exist," says Raj Birbal, senior advocate of Supreme Court. If, for instance, a non-resident Indian (NRI) promoter has 51 per cent stake in a company registered in India and also brings in FDI into the company through another joint venture registered outside India, the Press notes say that the company's control must be under the directors of the Indian firm. This will discourage FDI.

"There is no clarity if FDI has been hiked in mines, ports, manufacturing and defence," says a lawyer from a leading group with interest in ports and shipbuilding. In some cases — such as floriculture, horticulture, development of seeds, animal husbandry, pisciculture, aquaculture and cultivation of vegetables and mushrooms — 100 per cent FDI is allowed through direct route with clearance from Foreign Investment Promotion Board on a case-to-case basis. "Still there is no clarity," says Apurva Mehta, associate director at KPMG. "For example, on definition of a company, the foreign institutional investor (FII) norm is contradicting what is determined by the sectoral rules."

While previous Press notes specified the quantum of FDI and FII, the new guidelines said, any investments from NRIs, global depository receipts, American depository receipts, foreign currency convertible bonds and convertible preference shares, convertible currency debentures, regardless of whether the investment has been made under the Foreign Exchange Management Act, would be considered FDI. But Press Notes 2 and 3 say they will have to follow the sectoral cap.

Only the actual FDI flow would prove whether the United Progressive Alliance government's hasty announcement was worth the effort.

M. Rajendran

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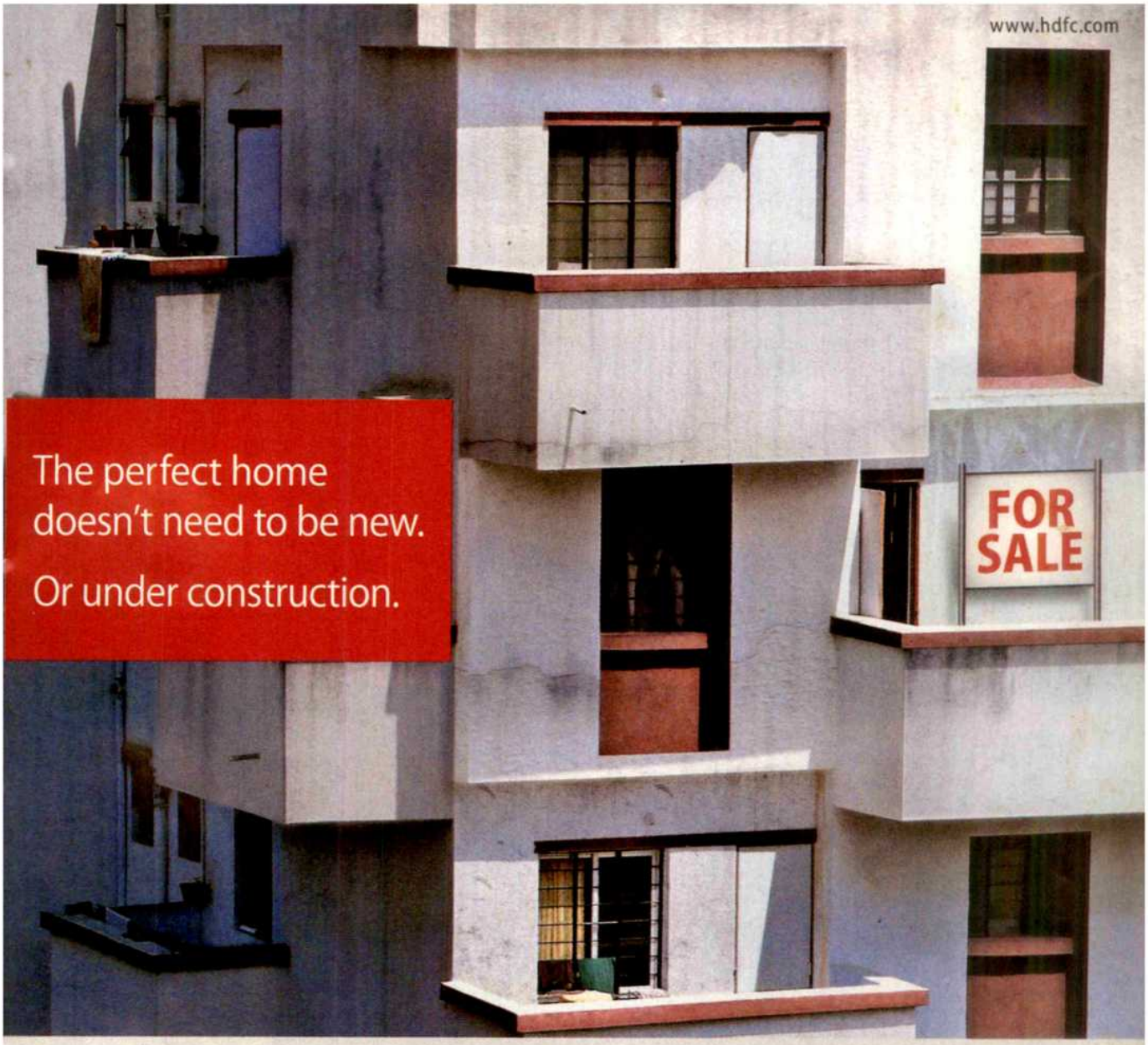

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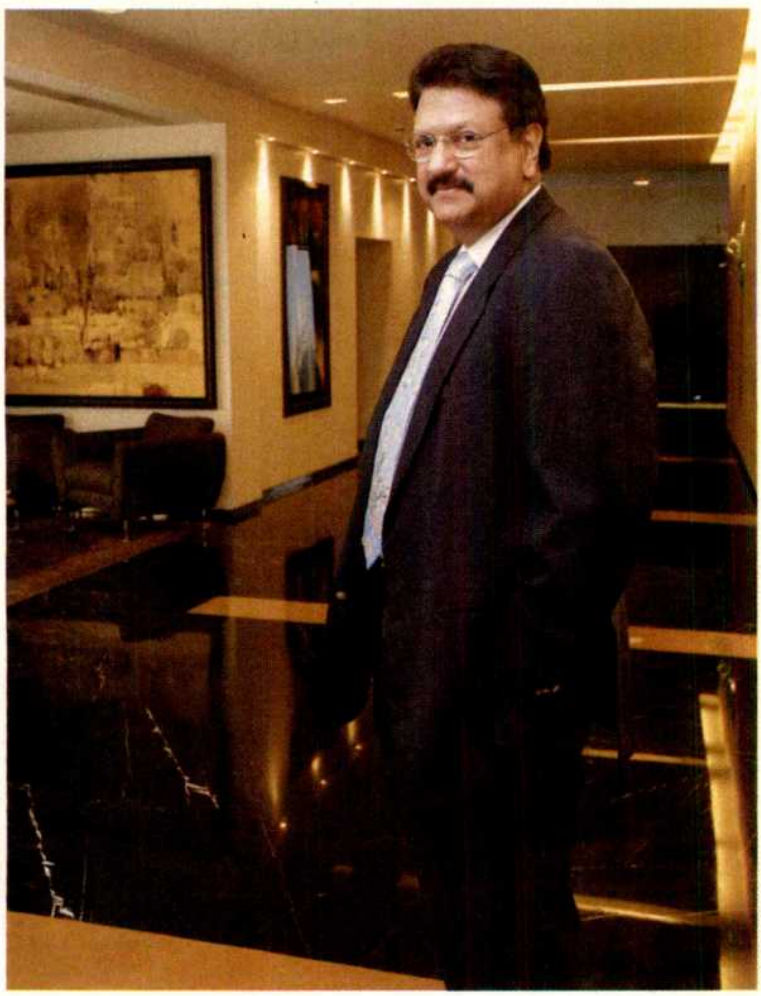
PHARMACEUTICALS

Piramal Healthcare's Selling Point

The company may not be up for sale, but its generic business could be

MUMBAI-BASED PIRAMAL HEALTHCARE, INDIA'S fifth largest pharmaceutical company by revenues (Rs 2,873 crore in FY 2007-08), may sell its branded generics business, Healthcare Solutions, to focus on contract research and manufacturing services (CRAMS). This is contrary to the perception that promoter Ajay Piramal is selling the entire company. Interestingly, Piramal recently started a new website — www.npilpharma.com — exclusively dedicated to its CRAMS business.

According to sources, about three months ago, Piramal appointed Zurich-headquartered Credit Suisse to look for prospective buyers. UK drug giant GlaxoSmithKline (GSK), France's Sanofi-Aventis and Germany's Merck KGaA are believed to have shown interest.



SUBHABRATA DAS

NEW FOCUS: Ajay Piramal, promoter of Piramal Healthcare

Recent media reports suggested that Piramal was in talks for the sale of the entire company. However, Piramal denied this in a 7 February communiqué: "Certain sections of the media have been speculating about a potential sale of the company... this is totally unfounded." When contacted by *BW*, Swati A. Piramal, director of strategic alliances and communications wrote in an email response: "[There's] no change in our official stand, which is in the press release." She did not, however, clarify whether the company was planning to sell select businesses.

Healthcare Solutions that recorded revenues of Rs 1,291 crore in fiscal 2008, or about 40 per cent of the company's total revenues, includes a portfolio of products in therapeutic segments ranging from respiratory and anti-infectives to diabetes, marketed only in India.

"Every global pharma company is thinking about generics. R&D is a very cyclical activity and generics could be a stable cushion business for these companies," says Olivier Pécoux, partner and co-head of global investment banking at Paris-headquartered Rothschild. "Pharma companies also need to build scale in fast-growing emerging markets like India."

According to a recent McKinsey study, the Indian market is likely to triple to $20 billion by 2015. While Sanofi-Aventis and Merck have a relatively small presence in India, GSK is one the largest companies in the domestic market after Ranbaxy Laboratories and Cipla. However, GSK's sales have witnessed poor growth over the last year, at just 2 per cent to Rs 1,752 crore in 2008.

The sale of its generics business would however leave a big hole in Piramal's balance sheet. According to Sarabjit Kour Nangra, vice-president for research at Mumbai-based Angel Broking, "The company's generics business is its most profitable one, with operating margins of around 25 per cent." The margins of the company's CRAMS business, Pharma Solutions — that accounted for 52 per cent of its revenues last fiscal — are significantly lower at around 15 per cent, according to Nangra.

Piramal started investing in CRAMS, a market estimated at about $800 million in India and growing at 40 per cent every year, almost a decade ago and has made several acquisitions abroad, including Pfizer's Morpeth plant in the UK in 2006 and Avecia's custom manufacturing business in 2005, to expand its customer base. Says Nangra: "The group still needs to transfer more business to India to improve the overall margins of that business." The process may take longer than expected.

Noemie Bisserbe

GOVERNMENT

Who Will Be India's Aviation Regulator?

DILEEP PRAKASH

BLOOMBERG

SUBHABRATA DAS

OUT OF THE RACE: (From left) K. Ramalingam, Ajay Prasad and V. Thulasidas

Yashwant Bhave is the frontrunner for the coveted post of Aera chairman

NOW THAT THE AVIATION ECONOMIC REGULATORY Authority (Aera) is finally threatening to start functioning, the race to be the Aera chairman has intensified. But the final candidate is only likely to be announced by end-March, since the government has recently advertised the post in the hope of attracting private sector candidates. Several people had applied for the post prior to the new advertisement. The final choice will be made by a committee headed by Cabinet Secretary K.M. Chandrasekhar.

The frontrunner for the post at the moment — if senior officials involved in the exercise have their way — is Consumer Affairs Secretary Yashwant Bhave, who is due to retire this year.

Many of those earlier in the fray have now been left out after the government has now introduced an age limit to 62 years (there was no age bar earlier) for chairman and 59 years for members (this means that those who are 60 or 61 can apply for post of chairman but not for the post of members). Two members are to be selected. As a result, some of the earlier contenders like former aviation secretary Ajay Prasad, Aviation Minister Praful Patel's favourite for the position and Brajesh Kumar, former managing director of Air India, are now out of the reckoning for the chairman's post.

Then, former Air India chairman V. Thulasidas's chances also appear dim as his handling of Air India was considered less than efficient. Neither are former AAI chairman K. Ramalingam's prospects too bright, according to sources in the know. Air India's current Chairman Raghu Menon — who has expressed interest in moving on — has been asked to hold fort at the airline. Barring Bhave, only two old names remain in the running: B.N. Puri, principal advisor, Planning Commission, and V. Subramaniam, former secretary in the Ministry of New and Renewable Energy and financial advisor in the aviation ministry.

Regulation of airports — especially with the new private airports now functioning — has become critical. Typically, landing, parking and take off, route navigation charges for airport operators and charges levied on airport passengers are set by the airport operator, an area where a private operator could abuse its monopoly power. Another important area for regulation will be allotment of time slots and parking bays. "At present, AAI arbitrarily allots time slots," says an aviation industry source. Finally, many countries' anti-trust laws prevent anti-competitive practices by their airlines. In the absence of such laws in India, it remains to be seen whether the regulator will look into such areas.

Anjuli Bhargava

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RETAIL

Subhiksha's Last Chance

The retail chain might just survive, but in a much scaled down version

SINCE LAST AUGUST, YOU MAY HAVE NOTICED lesser stock on display racks in your neighbourhood Subhiksha, and may have started going elsewhere instead. One fine day, you may have even noticed that the shop was shut. What happened was this: Chennai-based value retailer Subhiksha Trading Services, neck-deep in Rs 600 crore of debt (plus Rs 180 crore raised internally as shareholders' funds) accumulated over the past three years, could not pay its vendors as all its earnings was going to service the debt. So, over the past six months, it temporarily shut all 1,600 of its outlets in 110 cities.

Yet, till recently, Subhiksha's managing director and promoter, R. Subramanian, was thinking of expansion. "I will add another 2 million sq. ft by the end of the fourth quarter of 2009," he had told *BW* in December 2008, a move that would have raised his store count to 2,200 for an additional Rs 1,000 crore. Today, the company is on the threshold of a closure — it has no money to run its operations, its senior staff are deserting, many of its stores have reportedly been looted, and the government may initiate an independent audit of accounts at the instance of ICICI Ventures, the second-largest shareholder with 23 per cent stake.

However, Subramanian has not given up. Firm in the belief that Subhiksha can still be a viable business, he is making a last-ditch effort to survive by pitching for a Rs 300-crore loan from a consortium of 13 banks, besides attempting a debt restructuring exercise. In a letter sent to *BW*, Subramanian says, "The infusion of Rs 300 crore would revive Subhiksha soon." That would allow him to pay off the vendors and resume operations at a minimal level, though he might also have to shell out a significant chunk of his 59 per cent stake. Subramanian's confidence stems from his belief that his business model is viable. "We did not raise enough equity, and we paid the price," he says. "It was a capital structure problem rather than a business model problem."

Analysts agree that Subhiksha's low-cost model was sound. They blame the company's troubles on its rapid expansion with debt capital to open 800 stores in a year. Although the same store sales were as high as Rs 12,500 per sq. ft during the first few months of 2008, the debt taken on a number of new stores and the financial crisis put paid to Subhiksha's exuberance. The industry average for stores of 2,000 sq. ft (Subhiksha's typical store size) to break even is Rs 5,000 per sq. ft, and analysts say that Subhiksha's new stores never achieved breakeven levels.

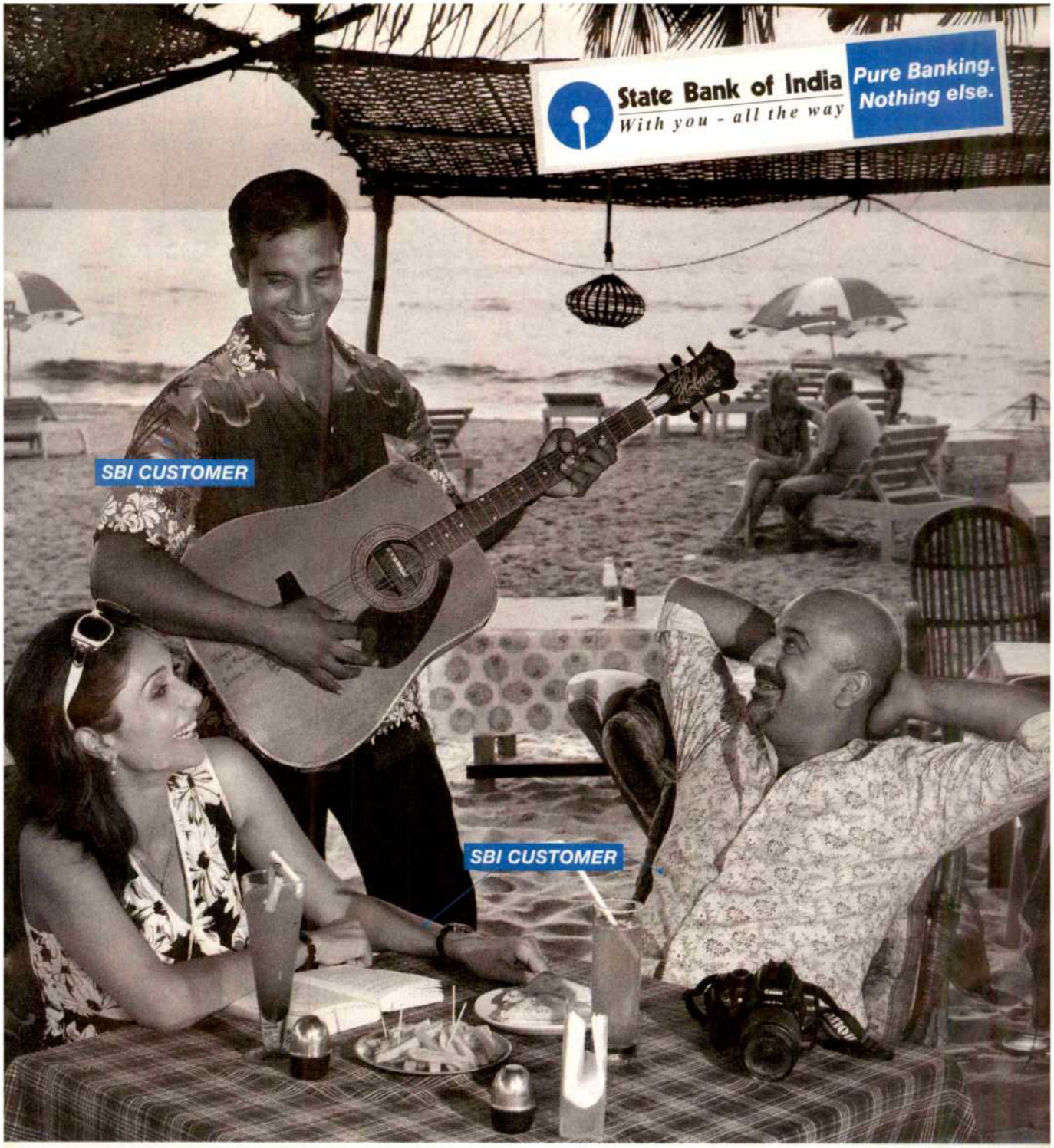
The desire to expand at breakneck speed is not typical of Subhiksha alone. "All retailers have read the Indian market wrong," says Devangshu Dutta, who runs retail consultancy Third Eyesight in Delhi. "There was no prudence; (there was a mismatch) between what the real consumer demand was and the number of stores opened." Pinakiranjan Mishra, partner of retail and consumer product practice at Ernst & Young, says, "Retailers have spread themselves too thin to benefit from scale."

The Rs 300-crore and the restructuring may help Subhiksha revive, but only if it closes at least 40 per cent of its stores. That may keep it afloat, but would be disastrous for a company that fundamentally offers low prices and relies heavily on high volumes for better discounts from consumer companies.

Vishal Krishna

SUBHABRATA DAS

EXPANSION SPREE: Subhiksha's greed to open 800 new stores in a year backfired



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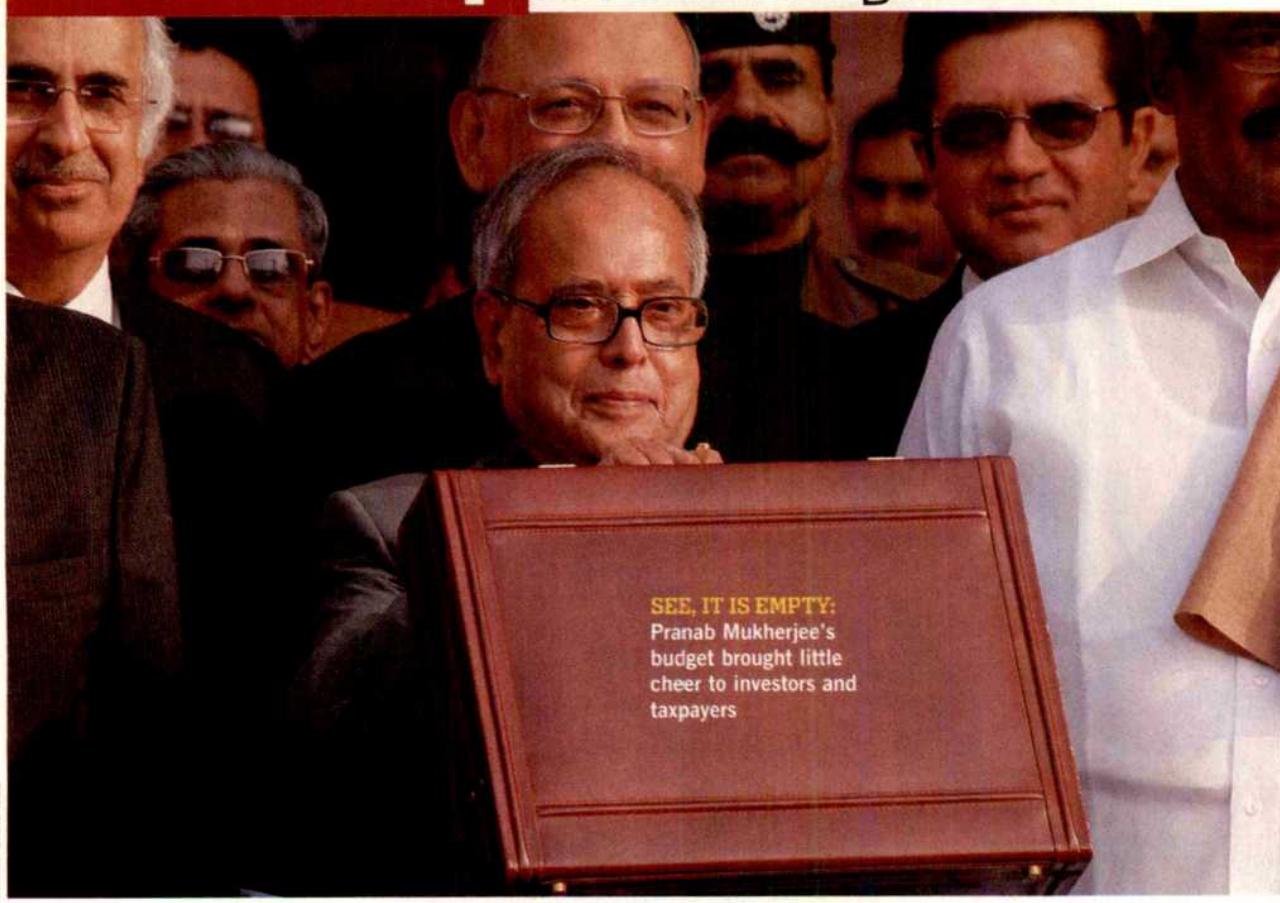


SEE, IT IS EMPTY: Pranab Mukherjee's budget brought little cheer to investors and taxpayers

BIVASH BANERJEE

Fiscal Burden

by Srikanth Srinivas

THE briefcase that acting Finance Minister Pranab Mukherjee carried to Parliament on 16 February must have felt incredibly light: all he had to do was present only a vote-on-account budget for the next three months, rather than a full year's. It allowed him and his government to take a lot of credit for past performance, but pass on the responsibility of battling the coming economic storms in the next two years to whichever government comes into office after the elections in May or June.

The next government will inherit public finances in tatters and a potentially crushing public debt burden, with very little room to maneuver. Blame the global economic crisis for that. Constitutional propriety, the minister said in his speech, demands that he not present a full budget. A full budget includes a finance Bill (containing all the tax and expenditure proposals) that is debated and passed into law, but the current Lok Sabha's (Lower House) tenure would have run out by then.

Political puns apart — Mukherjee reminded the television-viewing audience not to forget the 'hand' that made the past few years' prosperity possible, which the Opposition parties are sure to refer to as 'invisible' — his speech was a litany of the past four years' gains topped with dire hints of what was to come in the coming two: of slow corporate growth, hard times for job-seekers and an economic cycle that is largely in sync with a depressed global economy.

Parts of the corporate sector clearly expected more. "Although this was an interim budget,

some announcements of policy measures that would be growth-stimulating were expected," says Kausahal Sampat, chief operating officer at Dun & Bradstreet India.

Adi Godrej, chairman of the Godrej Group of companies, was disappointed. "But we will continue our expansion projects and hiring plans, anticipating new stimulus in the full budget (in May/June)," he says.

What frightens many companies, however, is the absence of political leadership to take important policy decisions at an uncertain and critical time. "Even though George Bush was a so-called lame duck between November 2008 and 20 January 2009, it did not prevent the US authorities from acting when it came to dealing with their financial crisis," says the chief financial officer of a leading manufacturing firm, who does not want to be named. He points to Japan: the 'lost decade' of the 1990s when the country stumbled through that period, and the terrible costs it paid. "Can we afford that?"

The State Of The Economy

On 17 February, Japan — the world's second-largest economy — reported that its economy shrank by 3.3 per cent in the last quarter. On an annualised basis, Japan's GDP shrank by an amount equivalent to more than half of India's GDP of $1 trillion. The same day, the world's largest car manufacturer, Toyota Motor Corporation, also announced that it was cutting its production for the first quarter of 2009 by 55 per cent. More bad news will follow.

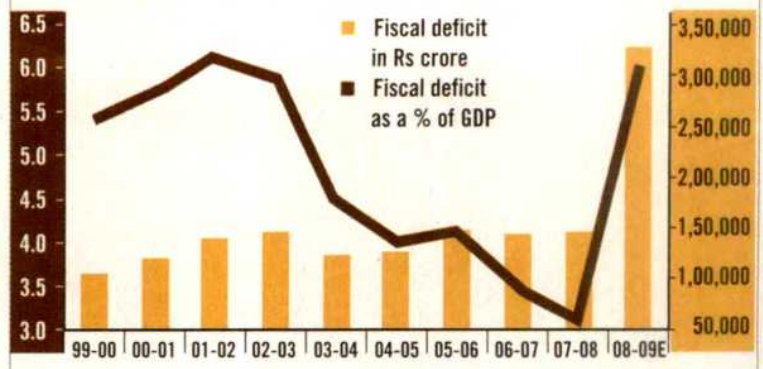
India's economic performance has taken a bad hit too. Growth estimates are being revised downwards with increasing frequency: the latest International Monetary Fund (IMF) forecast puts it at 5 per cent for 2009. Others put it at 6-6.5 per cent; for FY09, it will probably be around 7 per cent.

Not everyone is pessimistic. "The banking system in developed countries are almost insolvent, which is completely unprecedented in the past 100 years," says Rashesh Shah, chairman and chief executive officer at Edelweiss Capital, an investment banking and securities firm based in Mumbai. "That's not the case here. What we have is a cyclical slowdown coupled with a global event."

The vote-on-account or interim budget only postponed the problems of our fiscal irresponsibility; we still need to solve them

ROSY FUTURE UNLIKELY

India's fiscal deficit has spiralled from 2.5 per cent to 6 per cent



Source: Controller General of Accounts

There's A Hole In The Bucket

The fiscal deficit at 6 per cent (but at over 10 per cent of GDP on a consolidated basis) and the government's indebtedness (at over 80 per cent of GDP) present a sorry picture (see 'Rosy Future Unlikely'). The likelihood of their getting worse gets higher each week. The country's public finances, both at the central and state level, present a very bleak picture: lots of spending, but little by way of returns in economic growth.

"We have to examine the assumptions we made about the sustainability of growing at 9 per cent as if it would go on happening for years," says the head of risk management at a leading bank in Mumbai. "We have to look at the structure of expectations those assumptions created." Ajay Shah, senior research fellow at the National Council for Applied Economic Research (NCAER) in New Delhi, expressed similar sentiments on television on Monday.

"Which is why it made sense not to present a budget or announce any new measures," says V.R. Srinivasan, CEO of Brics Securities. "By not having to prepare a full budget, the government avoids creating fresh expectations about tax, customs and excise rate cuts that cannot be met without putting further pressure on its balance sheet."

But three months from now, the challenges facing the new government will only get larger: getting the economy to turn around, while keeping the fiscal position manageable at the very least, and keeping consumer inflation, particularly in the rural areas where it is the highest, at bay. And in the intervening period, developments in the global and domestic economy could complicate matters further.

Collateral Damage

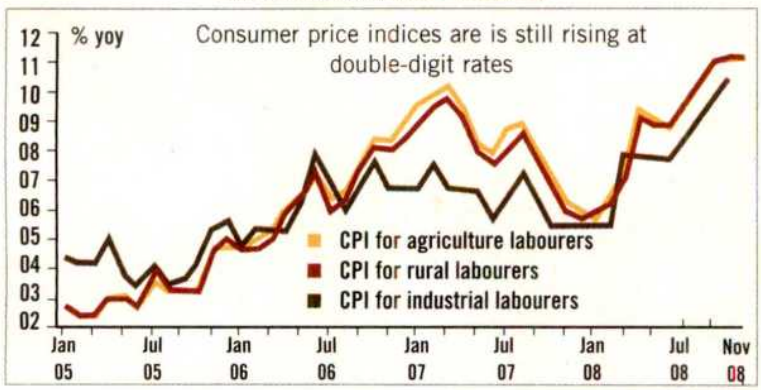
What were those assumptions that led us to this point, and what did they do? The first was that since capital was not a constraint, we could grow at upwards of 9 per cent year-on-year with a combination of investment and consumption demand. Flowing from that, a second assumption was that the price of capital was going to stay cheap. In other words, an inverted yield curve, where short-term money is more expensive than long, was a natural condition for India.

Third, since India's growth was domestically driven, demand conditions for goods and services were not going to change. Finally, risk aversion was a thing of the past, and had no place in an age of entrepreneurial capitalism. But in the next several months, the structure of expectations built on those assumptions will unravel.

Just look at the declines in inward capital flows, and it becomes clear that capital has become a constraint. Stock, debt and credit markets have all frozen up. Exports have fallen, as have invisibles that include remittances. Portfolio investment flows have been outward rather than inward. While foreign direct investment is still flowing, it has slowed down. Suppliers' credit and other forms of overseas debt and credit have disappeared, too.

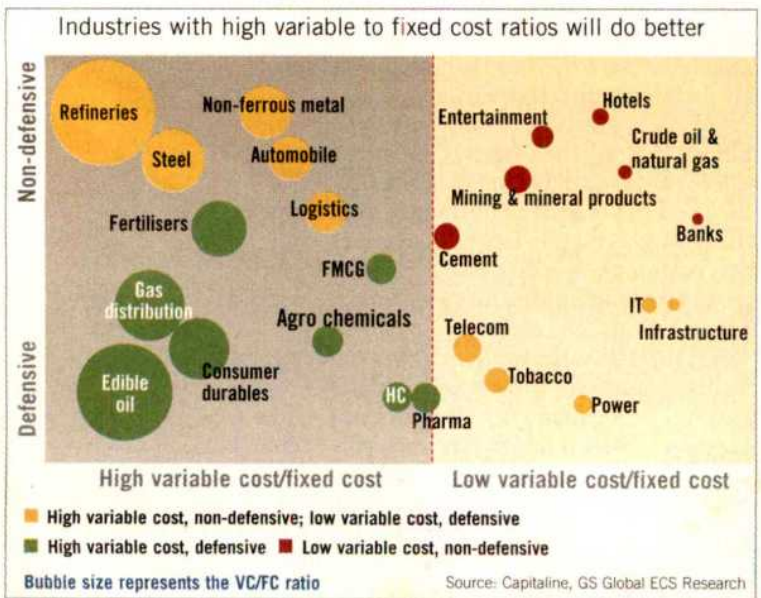
"Equity markets have already punished outlandish valuations and promoter company expectations by ignoring or rejecting equity offerings," says the head of research at a broking firm. "Their stock prices are trading at more realistic levels now." There is one other positive outcome. The yield curve for debt has become the way it should be: sloping upward. That is, long-term money is more expensive than short-term, which means that debt capital is priced more realistically.

NORTHWARD BOUND



Source: Bloomberg

INVESTMENT THEME FOR 2009



Source: Capitaline, GS Global ECS Research

Where's The Demand?

The December 2008 numbers released by the Reserve Bank of India (RBI) show that the demand for credit has fallen. The demand for almost everything from automobiles to home loans to electrical power for industries has fallen. The urban consumer, on whom so much attention has been focused in the recent years, has begun to show nervousness, and save rather than spend.

"The Sixth Pay Commission has put money in wallets, in part, at least," says Indranil Pan, chief economist at Kotak Mahindra Bank in Mumbai. "So has the farm-loan waiver. Yet, where is the spending?" Sixty per cent of the Pay Commission's arrears will be paid in FY10. But even then, spending is unlikely to pick up. Despite sales at huge discounts, retailers report store closures, falling custom and a complete lack of appetite for even the most attractive deals.

Investment demand is faring as badly. According to the Centre for Monitoring the Indian Economy, cancelled projects in the quarter ended September 2008 amounted to Rs 32,000 crore. This is in addition to another Rs 35,000 crore in investment spending cancelled in the previous quarter, June 2008. Expectations of the December 2008 quarter are even bleaker. The demand story, it seems, is not as robust anymore. Whether in stockmarkets or housing loans, personal consumption expenditures are showing signs of fading rapidly. Much of this, coupled with the gloomy business outlook in the corporate sector, reflects the sudden advent of risk-aversion.

That leaves public expenditure as the last resort to boost demand. The impacts of the fiscal stimulus packages announced in December and

January will only become visible in another 12-18 months, even if we ignored implementation delays. True, measures such as the National Rural Employment Guarantee (NREG) schemes have resulted in pushing rural demand, but also have side-effects such as pushing up rural consumer prices to high levels.

Belling The Cat

For the next three months at least, the onus of managing the shocks to the system will have to be borne by the RBI; both at home and abroad, monetary policy has had to bear the brunt of managing the impacts of the crisis. The RBI has lowered interest rates, but credit has not been flowing, partly from perceptions of increased risk as banks see higher non-performing assets.

But monetary policy can only do so much. The dangers of loose fiscal policy and monetary policy can be scary. "We already have about Rs 1,48,000 crore in just the Pay Commission arrears paid to employees and retirees, and the loan waivers," says Pan. "Yet, we have seen no incremental addition to demand or growth. If we cannot revive the economy with supplementary grants that account for nearly 25 per cent of GDP, what can loose monetary policy do?"

For the RBI, inflation is still enemy No. 1. It is not likely to add to its challenges by consciously going in for a looser monetary policy, even if Governor D. Subbarao said recently that there was room to cut rates. The headline number for the RBI is the wholesale price index, our equivalent of the producer price index.

By that reckoning, inflation has been falling steadily, albeit with minor adjustments. Commodity prices and input costs are down, but largely impelled by falling demand. It is not so much inflation being under control as much as it is deflation driven by declines in demand: passive, rather than active, inflation management. But in today's extreme circumstances, doesn't it make sense to look at consumer price inflation (see 'Northward Bound' on page 30)?

Sisyphus Calling

The incoming government faces daunting and unpleasant challenges: reviving the economy while keeping the fiscal deficit down, and keeping inflation low enough to encourage investment and consumption. "We may be asking the fisc to do too much," says Tushar Poddar, chief economist at Goldman Sachs in Mumbai. "What the government can do depends on how much countercyclical policy they can get away with."

For the incoming government, the big questions will be related to its medium-term plan: what should be its subsidy regime, for instance, and whether its commitments to programmes such as the NREG are likely to remain open-ended? While the fiscal deficit may not be a bad thing under the circumstances, the quality of spending will matter.

Experts point out that fertiliser subsidies are in essence a transfer of resources to multinational corporations who are the biggest manufacturers. Do we need that? Others suggest re-examining the dismantling of the administered pricing mechanism for petroleum products. "Four years of gains from fiscal responsibility and good budget management have been frittered away in just the last one year," says Poddar.

But all these have also opened the door for some far-sighted measures. The 13th Finance Commission will have the arduous responsibility of drawing up a plan to return to the path of fiscal sustainability; it should be seen as doing so for our credibility globally. Another key reform could be rationalising the tax code, and ensuring a shift to the generalised sales tax by FY11 which would help states manage their finances better. The next finance minister will not only have a heavier briefcase, he will have a heavier burden of fiscal responsibility to carry.

With inputs from Sreevalsan Menon

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NO EASY SOLUTIONS

The impact of the fiscal stimuli will only be visible after a year or so

Fiscal Stimulus 1: 7 December 2008

Tax cuts	Cenvat rates cut by 4% across the board
More expenditure	Plan expenditure to go up by Rs 20,000 cr
Infrastructure	India Infrastructure Finance Co. (IIFCL) authorised to raise Rs 10,000 cr tax-free bonds by March 2009
Textile	Additional Rs 1,400 cr to clear technology upgradation fund backlog
SMEs	Current guarantee cover doubled for loans up to Rs 1 cr
Exports	Interest subvention of 2% up to March 2009 for labour-intensive exports
Housing	PSU banks to announce package for home loans in two categories — up to Rs 5 lakh and Rs 5-20 lakh
Power	Import duty of naptha to be completely lifted

Fiscal Stimulus 2: 2 January 2009

ECB*	Relaxation of guidelines, cost cap on borrowing removed
Corporate bonds	Raising FII investment limit from $6 bn to $15 bn
NBFC	SPV for liquidity support of Rs 25,000 cr
Credit growth	Higher credit targets for PSU banks amounting to Rs 56,000 cr
State govts.	Additional market borrowing of Rs 30,000 cr
Infrastructure	Additional tax-free bonds for IIFCL
Banking	Recapitalisation of PSU banks amounting to Rs 20,000 cr
Automobile	Accelerated depreciation for purchase of commercial vehicle

*External commercial borrowing

Source: Government of India

A Spendthrift Confesses

by Ashok V. Desai

GOVERNMENTS PRESENT BUDGETS TO show they are financially responsible. Our government presents them to show its financial irresponsibility. It had told Parliament a year ago that it proposed to spend Rs 7,51,000 crore. A year later, Pranab Mukherjee said it would end up spending Rs 9,01,000 crore — a fifth more than it had promised to restrict itself to. Little of that enormous increase went to constructive activities. Over a third went to subsidize fertilizers, 9 per cent to subsidize foodgrains and 12 per cent to compensate banks for the debts to farmers they were forced to write off — and only a quarter of the debts are to be compensated for this year.

Giving free gifts to farmers comes naturally to democratic parties in this country with so many farmers. One way of rewarding farmers is to raise food prices. That hurts urban consumers, a growing political constituency; so they are compensated with food subsidies. Once they taste subsidies, their appetite grows; and short-sighted politicians are happy to feed it. That is how succeeding generations of politicians have frittered away revenue and starved investment. The NDA government took steps to reverse this fecklessness; it passed the Fiscal Responsibility Act. The UPA government went back to folly with a vengeance, leaving fiscal responsibility to some future government. Mukherjee's budget was a showcase of this improvidence.

It's outcomes that matter, not outlays: that was its own FM's dictum that this government threw overboard

He proudly listed the sums the government proposed to spend on village jobs, school lunches, drinking water, etc. But these allocations to potentially beneficial schemes pale compared to the money thrown at farmers and urban consumers. Every finance minister reels out figures in thousands of crores spent on his government's favourite schemes. These figures cover up a failure to set priorities, and allow governments to pass on money to their constituents at the expense of socially valuable expenditure.

And in the competition between politically profitable and socially useful expenditure, the loser is economically constructive expenditure. The last government had started out on a course correction. It had spent decent amounts on improving ports, and begun an enormous highway programme which should have connected the four corners of the country by 2007. A year later, it is far from completed; it lags so far behind that Mukherjee had nothing to say on it. It is buried in the miscellania called Bharat Nirman.

Great hopes were generated amongst thinking people when this government came to be headed by an economist prime minister, and when he made his closest friend vice-chairman of the Planning Commission. The hope was that they would bring some rationality to the enormous amounts of money the government collected from its citizens and some calculation to what expenditure of those trillions yielded in terms of concrete benefits, and use their calculations to redirect the expenditure and maximize the return in terms of the country's growth and welfare.

Looking back over the past five years, it is difficult to avoid the conclusion that despite such high-quality leadership, the government has failed in terms of those expectations. What it has done best is to divert expenditure into forms that made diversion of money into the hands of politicians and their favourites easy. For this it had a golden opportunity, because it inherited a economic boom. Tax revenues were multiplying. All the government had to do was spend them wisely. Instead, it squandered them unwisely. Soon it will hand on to the next government an economy facing a downturn and a daunting international situation. It has been a lasting catastrophe.

Every catastrophe contains an opportunity; at any rate, that is how one must look at it. The next government will face an enormous deficit. It may be the same Congress government under the same leadership; if so, it is likely to continue its disastrous course. The only hope then would be that it would ruin the economy soon, so that we could start again, as in 1991.

But there is a small chance that it may be a different government, or that the same government may return, but without the same urge to buy votes at the expense of the country. If so, it is to be hoped that it will heed the dictum that P. Chidambaram enunciated years ago and then ignored, that what matters is not outlays but outcomes. It should take stock of what the outgoing government achieved, at what cost, what yields maximum results for the cost and what is money wasted. Mistakes contain in them the opportunity to learn how to not to repeat them. In that sense, the UPA government leaves behind enormous opportunities.

The author is Consultant Editor of *Businessworld*. *ashok.desai@gmail.com*

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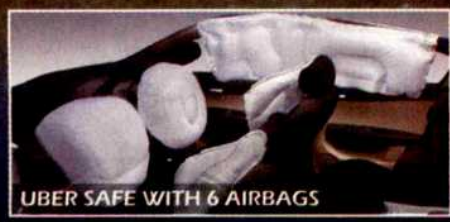
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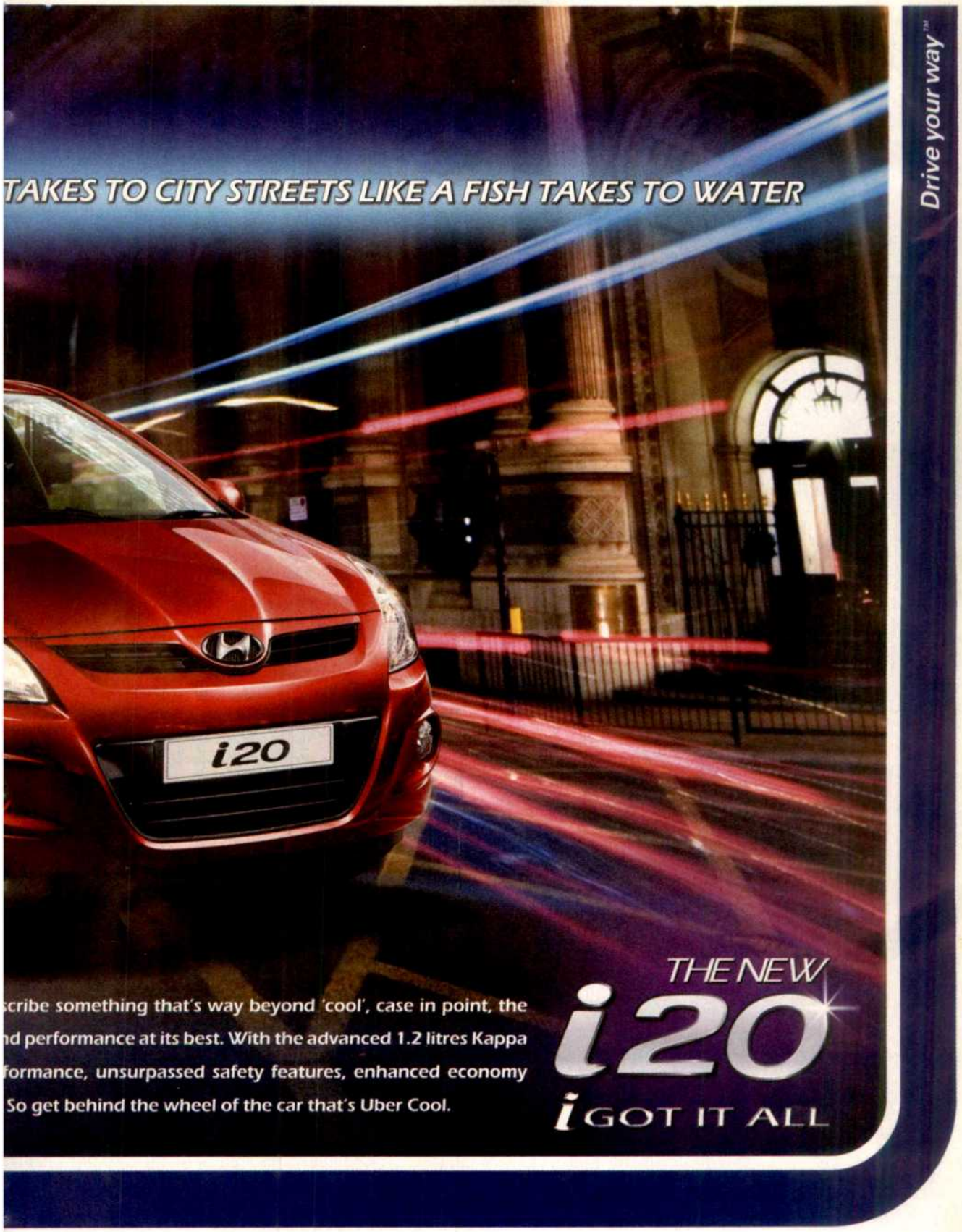

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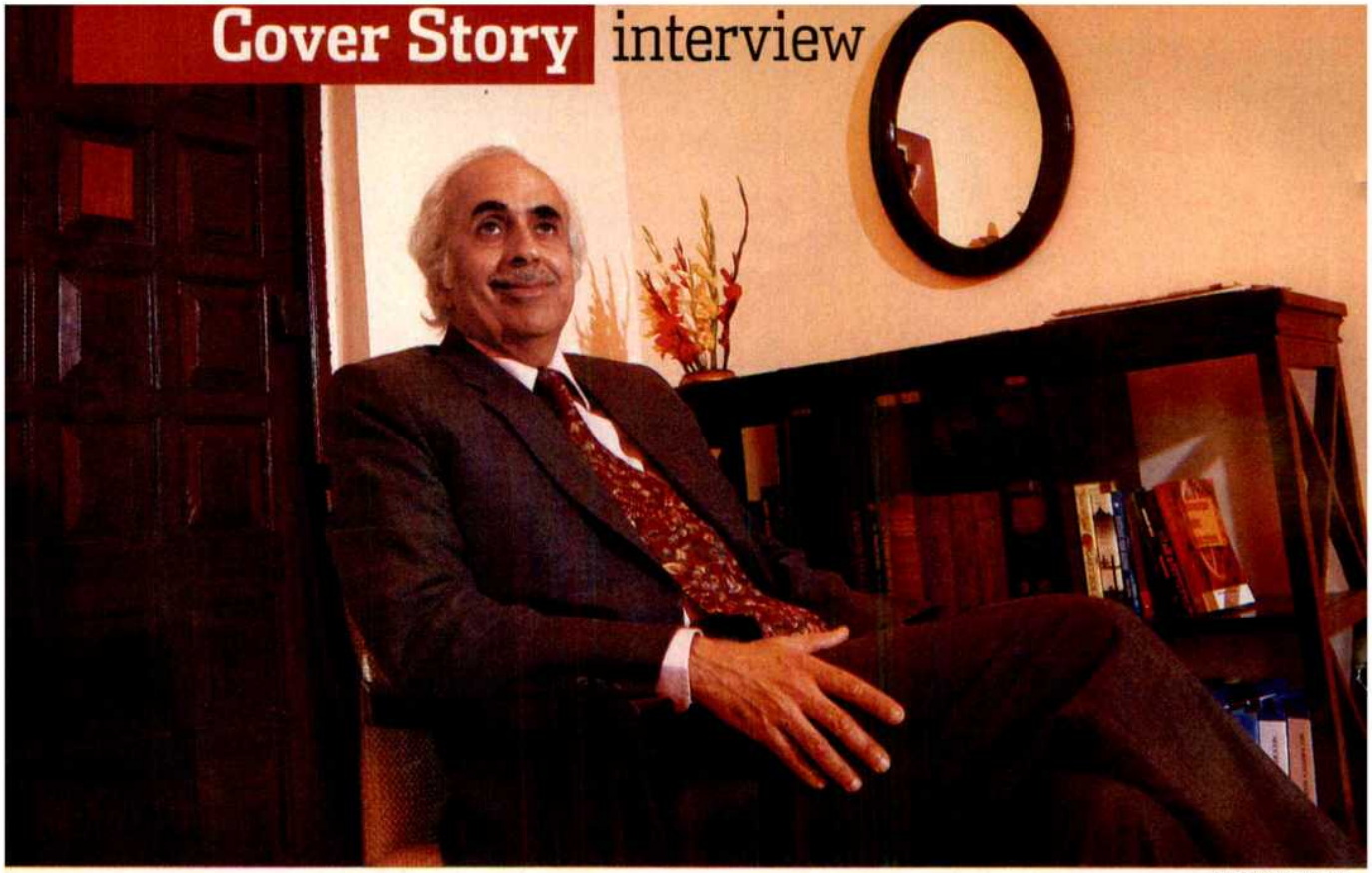


TRIBHUWAN SHARMA

'Not much to worry about'

–Ashok Chawla
Secretary, Department of Economic Affairs, Ministry of Finance

SEVERAL SECTORS IN INDIA HAVE BEEN REELING under the impact of the downturn since September 2008, with falling output and margins coming under pressure. The stock-market has reflected the poor sentiment. Lenders have become wary of risk, and the risk-taking appetite of investors has also been on the wane. The interest rates — which have been at high levels for a while now — have not shown the kind of softening industry was looking forward to. Against this backdrop, the present government — which has just a few months left in office — announced its vote-on-account on 16 February. Predictably, the initial response to the announcements was one of severe disappointment. On top of it, the government put on the table its own set of problems — a sharp fall in revenues and a higher than expected public spending. In other words, more liquidity would be sucked out of the system by a larger-than-expected government borrowing programme. Ashok Chawla, the economic affairs secretary, spoke to *BW's* Anjuli Bhargava on the interim budget and the state of the economy. Excerpts:

Q: Why did such a large borrowing need arise, and was it anticipated?

A: At the start of the year, it certainly was not anticipated. In fact, the fiscal deficit target was kept lower (2.5 per cent) than what the Fiscal Responsibility and Budget Management (FRBM) Act permitted (3 per cent). But some cushion was kept since one did not know what the impact of the Pay Commission report would be during 2008-09.

Then, not only did the Pay Commission report come in and the numbers of which are a reality, the economic situation turned substantially after September. The two packages announced by the government in December and January cost Rs 1,50,000 crore. (Rs 1,10,000 crore on non-plan side and Rs 40,000 crore on plan side.)

Revenues also dipped and the fall in revenues was around Rs 40,000 crore for the Centre alone (the actual reduction is more but around 26 per cent goes to the states).

So what emerges is that for every Rs 100

spent by the central government in 2008-09, 62 per cent is from our income and 38 per cent is from borrowing, which is very high compared to last year's figures of 80 per cent from income and 20 per cent from borrowing.

Q: In terms of revenues, the hit is more on the indirect tax side?

A: Yes. Direct is only Rs 20,000 crore; indirect is Rs 42,000 crore. Rs 9000 crore was given away with the 4 per cent Cenvat cut. Then, with economic activity taking a hit, excise collections were hurt. Mainly excise, partly customs and very little fall in service tax collections.

The situation has really become bad only in the last month or so.

Q: What are the ways of financing this shortfall without putting pressure on interest rates?

A: One is market borrowings through dated securities of 7, 20 and 30 years. So far, we have gone in for market borrowings in a major way this year. But we do not want to go in for this further as it leaves less available for the corporate sector (since it is banks who subscribe to government securities). It also tends to put pressure on the yields of government securities, which in turn puts pressure on interest rates.

If it is purely short-term requirements, we could have gone in for treasury bills but these are typically short term — 90, 180, 365 days. They are a bit like the counterpart of working capital in companies.

A third option — which is what the US is taking — is monetising the fiscal deficit. The Reserve Bank just prints the money and gives it to the government. This, of course, is very inflationary and the economy has to be very strong to absorb all that. You have to be very sure that the positives of doing it will outweigh the negatives. Here in India, the FRBM Act does not permit this.

Another option available at this point in time is that the government borrowing is set off against the money that is there under the market stabilisation scheme. An arrangement can be worked out with the RBI so that the government borrowing is set off against the bonds RBI issues under this scheme, and when the bonds come up for repayment the government takes cares of it after a year or two. The implication of this would be that you will not be violating any principle of the FRBM Act and while it is still a market borrowing by the government, it does not reduce the liquidity available with banks for the other side of the window.

Q: When will India get back on the FRBM track?

A: It could be 2010-11. We are not forsaking the path of fiscal prudence, but it will be in the medium term.

Q: Which are some of the economic indicators that have taken a visible hit?

A: We have seen a visible fall in private capital flows coming into India — both on the foreign direct investment side and less foreign institutional investment (in fact $13 billion has gone out since September). This has put pressure on the rupee, so it has depreciated. The sentiment in the equity markets — led by the global markets — has been hurt substantially.

There is a general aversion to taking any kind of risk both on part of investors/entrepreneurs and lenders/banks. The housing sector has taken a real hit with the collapse. The values of real estate and prospects for those developing commercial and high-end properties have taken quite a beating.

Due to the decline in demand globally, exports have come down — especially with garments and gems and jewellery.

And lastly — this is partly anecdotal — there is a fall in employment. The number of jobs in the unorganised sector and the small-and medium sector have seen a fall, but even the organised sector is reporting some job losses.

Since out financial sector is not as keenly integrated as some of the other economies, the impact has not been that substantial. We have seen more of an impact on the real sector; fall in output, manufacturing and so on, not so much on the financial side of it.

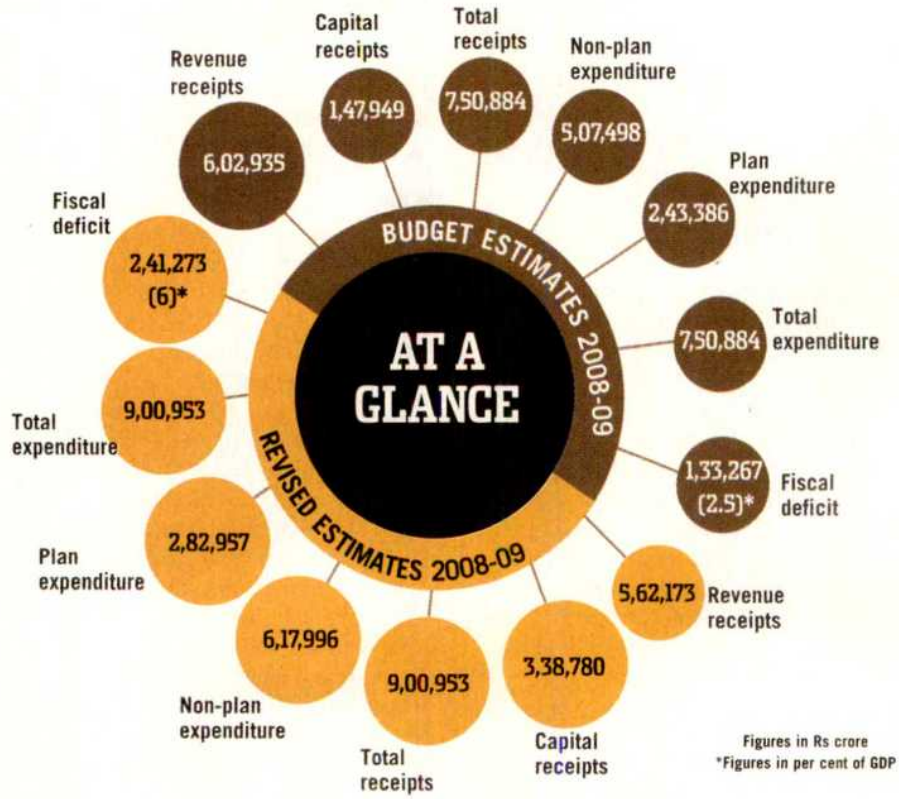
The first two quarters of this year were good, so all signs are that they will end the year with 7 per cent. So things are bad, but not that bad. Next year, the situation is likely to be depressed from April-September, but after that things will improve quite substantially. So H2 will make up what is lost in H1 and we should end the year with a growth of 7 per cent or maybe even 7.5 per cent.

Q: Many feel India is yet to feel the full impact of the global downturn...

A: We are hit in the sense of exports and by a fall in purchasing power abroad. But ours is an economy that is led by domestic demand and consumption. Our savings rate is high (37 per cent) and our investment rate is high (39 per cent of GDP). So I do not think there is too much to worry about.

A Matter Of Detail

Some telling numbers from the interim budget



POINTS TO PONDER

Instances of budgeted allocations remaining...

...UNSPENT

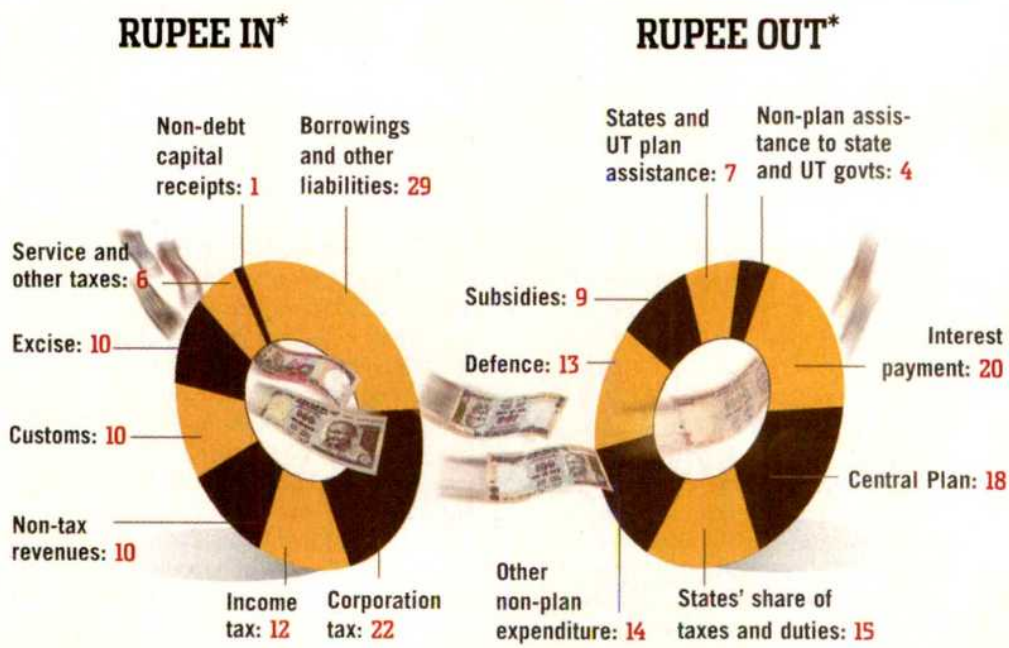
- Sethu Samudram project: 80%
- Allocation for ports: 37%
- Schemes under minority affairs: 34%
- Housing and urban poverty alleviation: 20%
- Defence services: 15%

...BEING EXCEEDED

- Rural employment schemes: 155%
- Investment in Delhi Metro: 147%
- Fertiliser: 143%
- Pensions (defence and general): 30%

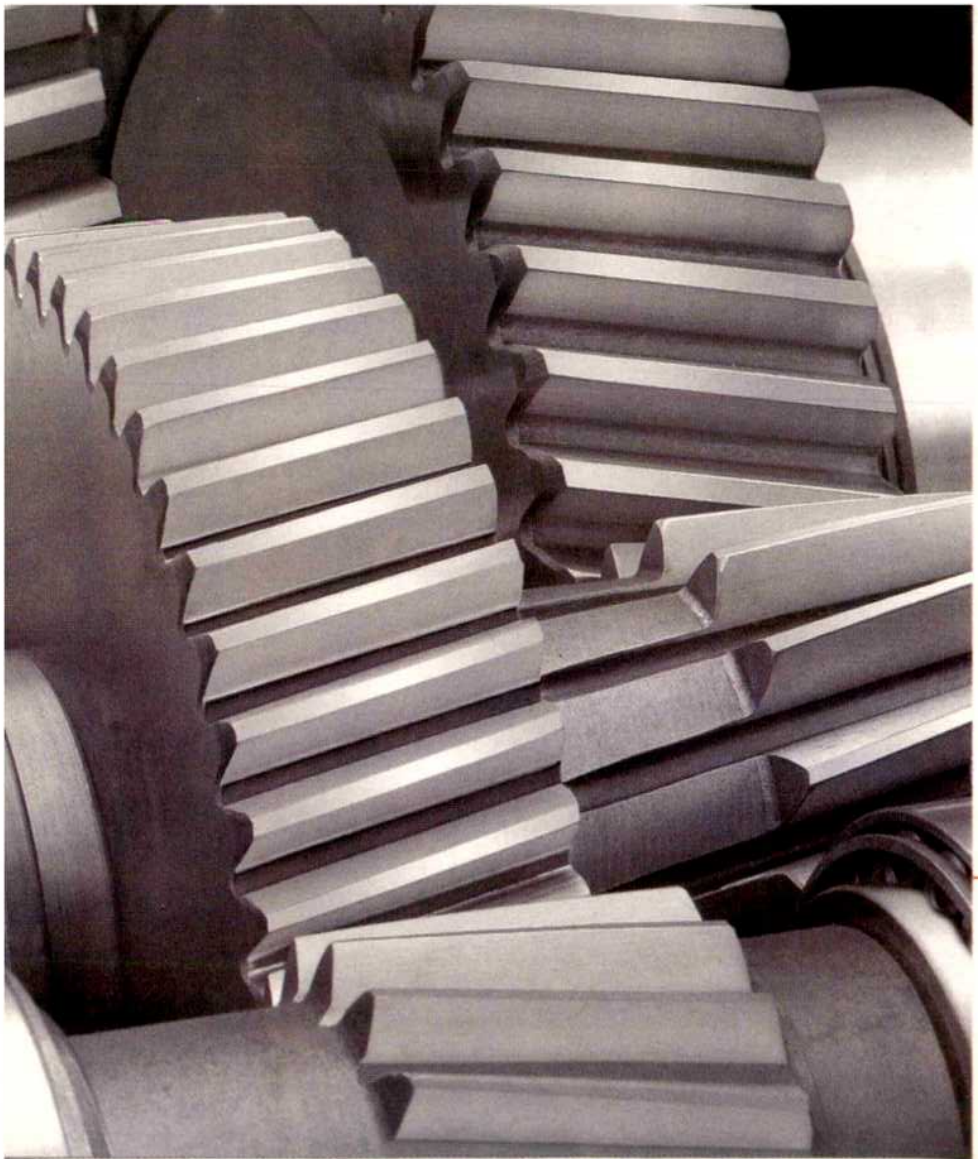
Comparision of BE and RE (2008-09) from Budget documents

GRAPHICS: NEERAJ TIWARI



*The government receipts and expenditure are supposed to be a rupee, and the figures are in percentages

With inputs from Kandula Subramaniam



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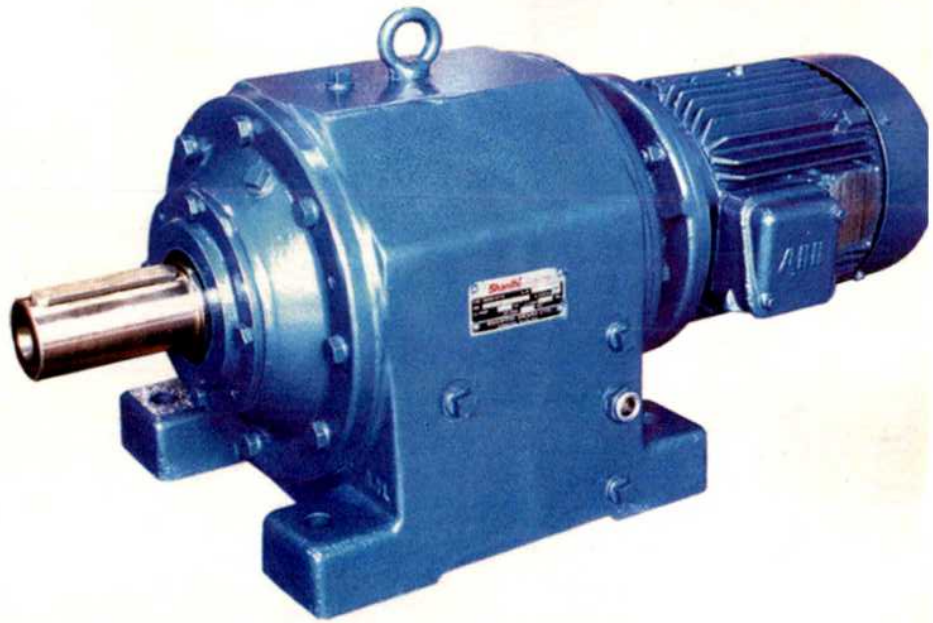

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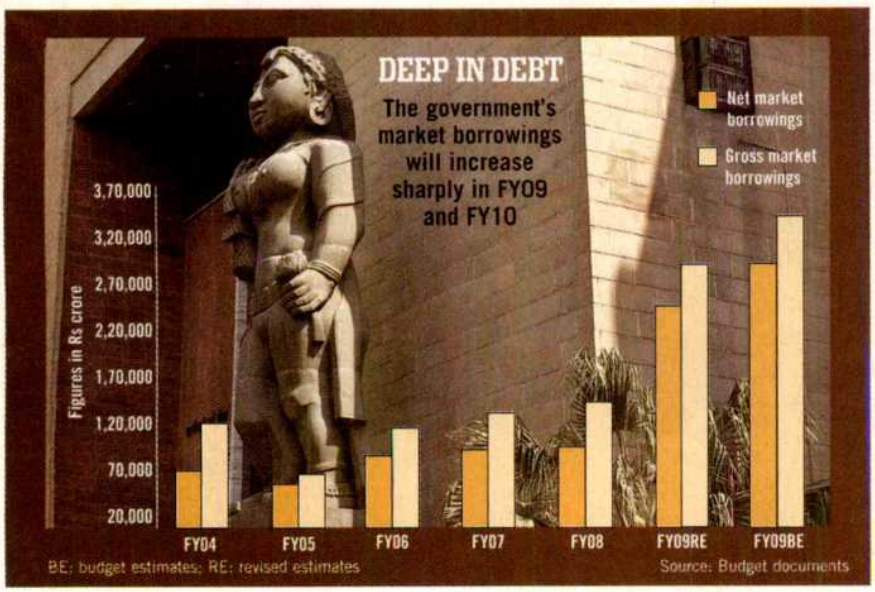
Borrowing Jitters

by Raghu Mohan



The Centre's borrowing plans may push rates higher

THE SIGNS ARE OMINOUS. LONG-TERM INTEREST rates may well be on their way northwards if the cues from the money markets are anything to go by. The 10-year bond yield rose 15 basis points to 6.30 per cent ahead of stand-in Finance Minister Pranab Mukherjee's interim budget presentation, and currently quotes at 7.65 per cent.

And it is the Centre's borrowing programme that is creating jitters. The net figure for 2009-10 is Rs 3,08,647 crore, up from the Rs 2,61,972 crore for 2008-09. So, if the Centre is going to come to the only watering hole left for India Inc., that is banks, there is every reason to believe that the price of money will only go up. Take bank deposit growth: if deposits grow at 18 per cent, as it has done in the financial year so far, then the same in 2009-10 will be anywhere between Rs 6,80,000 crore and Rs 7,00,000 crore.

Madan Sabnavis, chief economist at NCDEX, points out that the Centre's incremental borrowing of Rs 3,00,000 crore will mean that only about Rs 4,00,000 crore will be left for borrowers — wholesale and retail; 5 per cent of which will be locked up as cash reserve ratio (CRR). The point being made here is that the Centre's appetite for funds will push out the commercial sector.

The other headache is the emphasis on infrastructure. During the period between August 2008 and January 2009, 37 proposals for Rs 70,000 crore were cleared. While it is not known how many of these projects have tied-up their finances, it would only give a fillip to demand for funds. It is no wonder then that Finance Secretary Arun Ramanathan, said that of the Rs 3,08,647 crore borrowing slated for the next financial year, "Rs 45,000 crore (the additional borrowing for this fiscal) will be mopped up from sources other than market borrowings and private placement".

One way is to convert bonds issued under the market stabilisation scheme (MSS) — envisaged to mop up the rupee liquidity generated on account of the Reserve Bank of India's (RBI) dollar purchases — into regular bonds.

CRR Cuts An Option, But...

RBI can always enhance liquidity through CRR cuts — the money market is sniffing one next week. According to Kaushal Sampat, chief operating officer at rating agency Dun & Bradstreet (India), "With the lack of major growth stimulating measures in the interim budget, we expect the RBI to cut interest rates further before the April 2009 monetary policy review."

The counter view is that if the stimulation measures start delivering results with a spurt in investments, demand-driven inflation — which was missing in the last bout of high inflation — could surface. That would limit the possibility of more CRR cuts. "A good rabi crop, and possibly kharif, this year can rein in cost-push forces in an era of benign oil prices. But higher domestic growth can engender these triggers. So, inflation will be an issue on hand for the RBI", says Sabnavis.

Notes Abheek Baruah, chief economist at HDFC Bank: "The anxiety over additional borrowings to fund more stimulus packages from a new government will introduce a natural upward bias in yields."

The RBI and the Ministry of Finance will have to do some adroit management to ensure that interest rates do not spiral.

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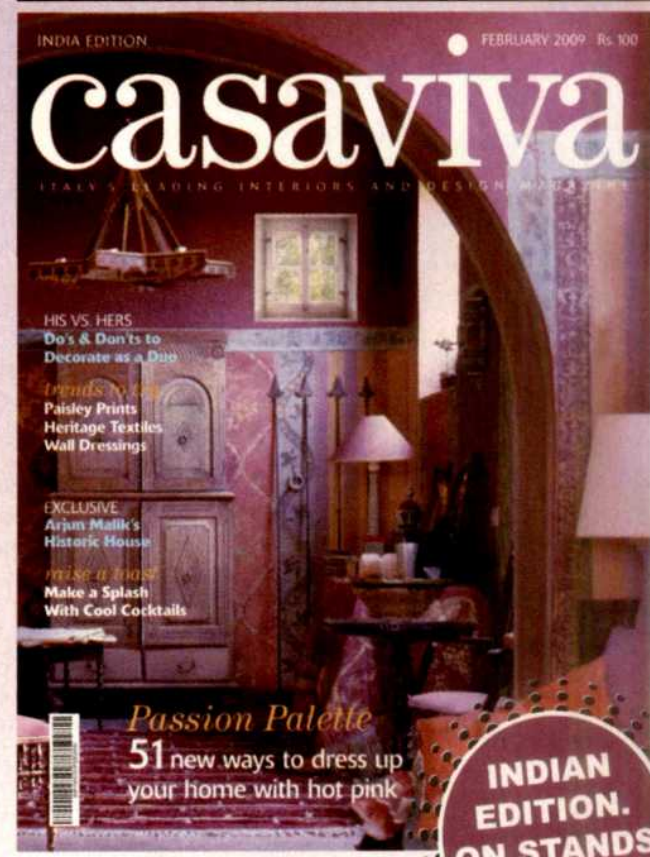

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Dangerous Deficit

by Omkar Goswami

WELL, WELL, WELL. IN ITS LAST YEAR OF being in power, the Congress-led UPA government has finally blown it. The fiscal deficit has gone through the roof. By its own admission, the central government's fiscal deficit for 2008-09 will be 6 per cent of GDP — up from 2.7 per cent in 2007-08. Add an extra 1.8 per cent on account of 'special securities' issued by the Centre to additionally subsidise fertilisers and oil, and another 3.5 per cent as the combined deficit of the states, and we are staring at a consolidated fiscal deficit of 11.3 per cent. I will bet that when the actual data arrives, the consolidated fiscal deficit for 2008-09 will cross 12 per cent of GDP.

These numbers probably make no difference to most in the Congress and the UPA, who believe they can spend their way to winning the next elections. But these should have made Manmohan Singh and P. Chidambaram cringe. Both know the ill effects of running high deficits. Both have had to work hard to bring them down in their stints at the Ministry of Finance. And both know how difficult it is to rein in profligacy, especially in weak coalition governments.

In fact, the numbers must be particularly galling to Chidambaram. Having worked tirelessly at bringing down the central government's above-the-line fiscal deficit from almost 5 per cent of GDP in 2003-04 to 2.7 per cent in 2007-08, he must be wincing at it shooting up to 6 per cent — plus an extra 1.8 per cent on account of below-the-line items. He had suffered opprobrium and brickbats within his party and among his allies as he brought the deficit down, year by year. And then, when he had almost breasted the finishing tape, the ground gave way under his feet.

All the good work done by Chidambaram has been wrecked by profligacy. And will remain so for some time

I cannot help feeling sorry for him. On 29 February 2008, when he sat down after his 2008-09 Budget speech, Chidambaram thought he had a winner. The budget took the wind out of the Opposition's sails, won kudos from the industry, and bequeathed bounties to all segments of society that mattered for the forthcoming election. Here was a reformer committed to inclusive growth and, through huge hikes in social expenditure programmes, was returning to the masses what was a bit of their just dues. The beauty of it was his claim that despite all the additional expenditure, the cash fiscal deficit of the Centre would be at 2.5 per cent.

At the core of the 2008-09 Budget were some big bets: that GDP growth would not slow down; that huge expenditure outlays and loan relief would further stimulate domestic demand; and that excise relief would ignite further growth of manufacturing.

I had written then in this column, "While mega-Keynesian budgets like this get scores of 9 out of 10 in the heady moments, they have a habit of getting unstuck." That is what happened with falling growth; lower than expected revenue receipts; and way higher than budgeted expenditure, especially on account of non-plan items such as burgeoning food and fuel subsidies. The cash deficit ballooned to 6 per cent of GDP instead of the budgeted 2.5 per cent.

Do not think of this as the cost of kick-starting the economy through the two stimulus packages of December 2008 and January 2009. Those will not account for an extra 1.5 percentage points of GDP. It is all about the growth bet going horribly wrong, and along with it the assumptions regarding the buoyancy of tax revenues. The 2008-09 Budget had precious little room for manoeuvre. India had to achieve at least 8.5 per cent GDP growth and deliver around 20 per cent increase in revenues for the deficit to be around 2.5 per cent. It has not happened. And nobody dared pull the plug on spending. Indeed, John Maynard Keynes was invoked by all and sundry based on a facile assumption that we could spend our way out of trouble, irrespective of what we spent it on.

Where now? I am afraid that we are in very dangerous territory. With the combined deficit set to breach 12 per cent of GDP, we are looking at a heavy borrowing plan that will put upward pressure on interest rates — forcing the Reserve Bank's hands to further cut the repo rate and the CRR. We are also looking at under 7 per cent GDP growth in 2008-09, and probably 6 per cent growth the next year. And a very unruly, fractured coalition government. So, all the good work done by Chidambaram has been wrecked by electoral profligacy. And will remain wrecked for the next couple of years, as spending your way out of trouble carries more dangers than realised. And because diabetics should never be allowed to keep their hands in the cookie jar.

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SUBHABRATA DAS

Pressing The Pause Button

by Gurbir Singh

Sombre mood at media meet as slowdown sinks in

THE 10TH EDITION OF THE FEDERATION OF INDIAN Chamber of Commerce and Industry's (Ficci) annual media and entertainment (M&E) jamboree in Mumbai, Frames 09, showed all the signs of a recession. The cookies near the coffee machines outside the conference hall were missing; stalls of participating media firms were fewer and the display panels on stage had even fewer sponsors' names.

Even Anand Sharma, minister of state for information and broadcasting, failed to pep up the mood. All he had to offer were a string of homilies such as: "Cinema and media does not only provide entertainment, but also give information," and "Technology is getting outdated because new gadgets are being added." However on the sideline, he promised to push for the entertainment industry's demand to include entertainment tax as part of the Goods and Services Tax (to be implemented from 2010).

Aroon Purie, chairman of the India Today Group, managed to evoke a positive response because he offered to speak on what he called "the mess in broadcasting". He said distribution was the main problem of the Rs 23,000-crore industry. "Content is king, but distribution is god," he said. In a year when valuation of television companies had fallen by 65 per cent, they paid Rs 1,500 crore to cable networks as 'carriage fees'. In fact, a major portion of a channel's annual expenditure of Rs 20-30 crore is carriage fees. Since 67 million of the 84 million television cable households have analogue connections, there is not enough space for the 400 channels.

Rajesh Jain, head of KPMG's entertainment practice, told *BW* that the pressure of carriage fees was felt more sharply by the news channels, as they were free-to-air and had access only to advertising revenue and not subscriptions. Secondly, competition was stiffer in the news space.

That the M&E industry was in a critical and self-introspective mode was obvious at the conclave. Amit Khanna, chairman of Reliance Entertainment, said, "After years of preaching, the government has failed to put either a broadcast regulator or a coherent film policy in place."

Another session on 'return on investments' in the entertainment industry grappled with the better business option — growth at any cost and rapid expansion of the topline versus focus on bottomline performance and the need to conserve cash. While Rajesh Kamat, CEO of Colors, said rapid expansion and grabbing market share helped him succeed, G. Krishnan, CEO of TV Today, said, "Conserving cash despite criticism had made the company stand in good stead."

Meanwhile, KPMG has projected a growth of just 7.4 per cent for the M&E industry this year as compared to last year's 12.4 per cent. "The main drag will be the advertising revenue that will grow marginally by around 6 per cent from Rs 22,200 crore to Rs 23,800 crore last year," says Jain, who anchored the survey. However, subscription revenue from television and print is still robust and "is a huge untapped opportunity, as is the IPL event". The projection is optimistic in the long term, predicting a growth of 12.5 per cent cumulative average growth rate till 2013 with the industry doubling its size to Rs 1,05,200 crore over the next five years.

HIGH PROFILE: (From left) Ficci President Harsh Pati Singhania, Anand Sharma, filmmakers Yash Chopra and Karan Johar, and actor Deepika Padukone

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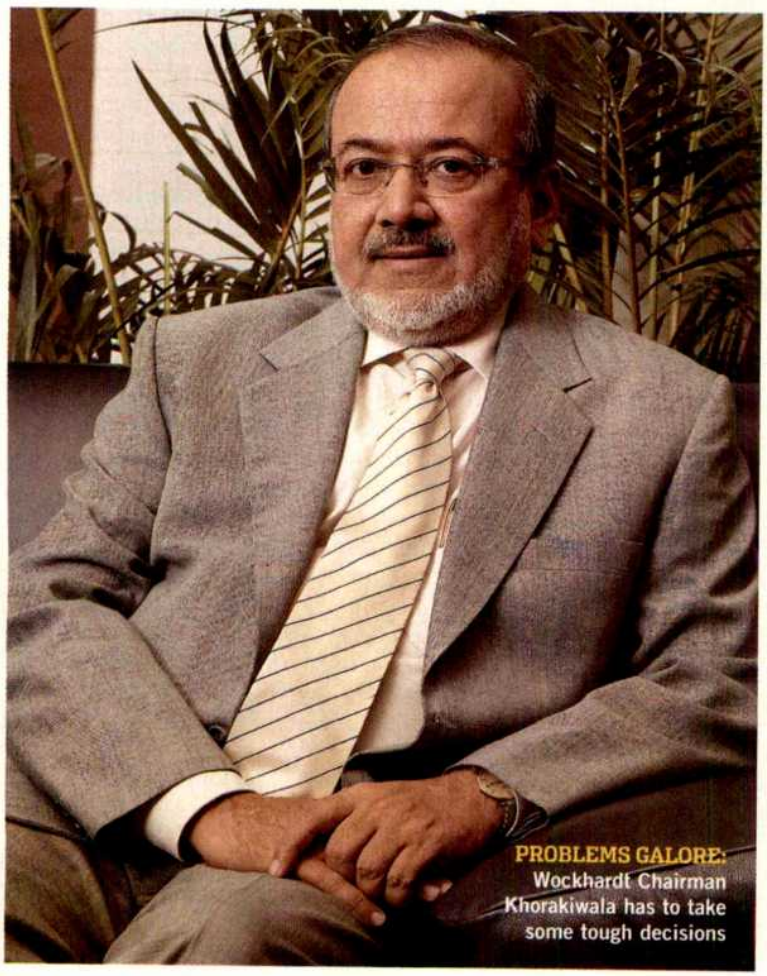
No Quick Fixes

by Gauri Kamath



SANJIT KUNDU

PROBLEMS GALORE: Wockhardt Chairman Khorakiwala has to take some tough decisions

Past buys are proving to be costly for Wockhardt's chairman

IN 2003, RUMOURS SWIRLED THAT HABIL Khorakiwala, then 60, was to sell off Wockhardt, the widely held home-grown drug maker he owned, to focus on Wockhardt Hospitals, a budding chain of corporate hospitals. Given the time and resources the latter would command, it was argued, Khorakiwala would narrow his bets.

But the group chairman scotched all rumours. Six years on, a crisis might force a rethink. In a double whammy, both businesses are in need of substantial cash injections at a time when the market is in no mood to oblige. The Rs 2,653-crore Wockhardt needs to raise nearly Rs 1,000 crore (at today's exchange rate of Rs 49.2 to the dollar) in the next few months to pay up debt owed to foreign currency bond (FCCB) holders and banks, say analysts. This is a tall order; Wockhardt's market capitalisation on 13 February was Rs 1,048 crore, down 71 per cent from a year ago. At Rs 95 a share, it is trading nowhere near the Rs 486 trigger for the conversion of debt into equity.

Closely held Rs 360-crore Wockhardt Hospitals is struggling to find investors to bankroll its growth after a failed attempt at raising Rs 800 crore through an initial public offering (IPO), withdrawn in February 2008. A Wockhardt spokesperson in Mumbai turned down *BW*'s request for an interview with Khorakiwala.

Clearly, Khorakiwala is stretched. Last week, he admitted to having pledged 43 per cent of his 73.6 per cent stake in group flagship Wockhardt with financial institutions to raise little over Rs 300 crore for Wockhardt Hospitals. Wockhardt Towers, its swank corporate headquarters in Mumbai, has been pawned. The search for suitors for Wockhardt's two European drug companies — in a desperate bid to raise funds — has met with little luck.

"While the issue is primarily financial restructuring, it does raise strategic questions for the promoter as well," says Sanjiv Kaul, managing director of private equity firm ChrysCapital in New Delhi, and an old pharma industry hand. One news report last week suggested that Khorakiwala was looking for a "strategic sale" of Wockhardt. This could not be independently confirmed. In January, Wockhardt took shareholders' approval to raise Rs 500 crore through a preference share issue to pay back FCCB holders.

Costly Hubris?

Wockhardt's current problems have their origin in rapid expansion on borrowed funds in the days of easy money. Wockhardt spent roughly Rs 1,700 crore on buying the two European companies, now said to be on sale — France's Negma Lerads, and Ireland's Pinewood Labs — in 2006-2007 at high valuations. Historically, Wockhardt's generics exports have lagged behind rivals such as Ranbaxy and Dr. Reddy's in performance and profile. These acquisitions were Khorakiwala's moves to catch up. But the expansion has indebted the company to the tune of Rs 2,900 crore.

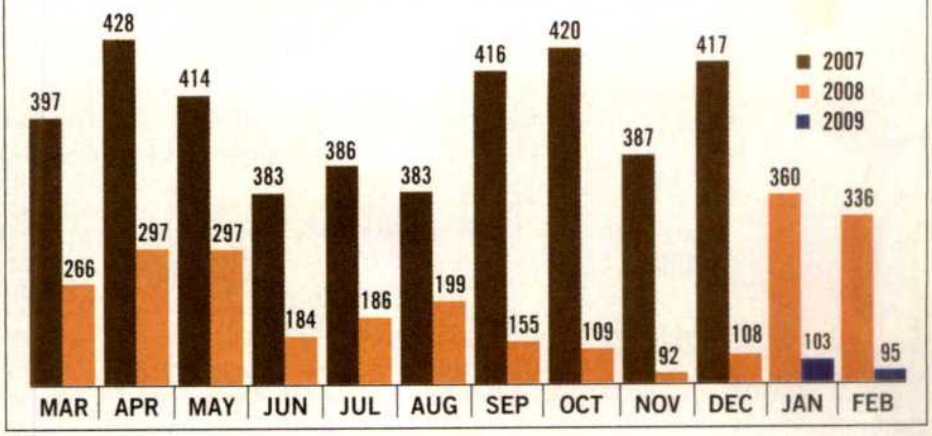
Wockhardt is now the largest Indian generic pharmaceutical company in Europe as a result of those acquisitions. "But his obsession with market share has compromised its risk profile," says one deal maker on condition of anonymity. Wockhardt's debt-to-equity ratio stands at roughly 2.2:1. Ballooning interest payments on foreign debt have impacted the bottomline. In

the quarter ended September 2008, EBITDA rose 17 per cent, yet net profit fell by 43 per cent.

Yet, when the market turned, Khorakiwala's actions did not keep pace, feel some industry watchers. A source says late last year Khorakiwala expected to recover most of what he paid for Negma and Pinewood, but buyers would not bite. "Those assets were acquired at peak value," says Mallika Baheti, pharma analyst at brokerage Sharekhan. "In today's scenario, these investments are unlikely to fetch the same valuations."

SLOWDOWN WHAMMY

Wockhardt's share price is too low for bond holders to convert their debt into equity



Figures in rupees; Jan and Feb figures for 2008 and 2009 are shown at the end for comparison
Source: BSE

In a similar vein, even after Wockhardt Hospitals' failed IPO, Khorakiwala did not climb down in his pricing negotiations with private equity (PE) players such as General Atlantic Partners. This is one reason why no deal has been struck, some say. Even now, Khorakiwala — who is still talking to PE outfits — appears keen on extracting "the last pound of flesh," says one investment banker familiar with the negotiations, on condition of anonymity.

What Next?

Some industry watchers say that the group's immediate problems can be overcome if Khorakiwala plays down his demands. Wockhardt Hospitals, says Kaul, has "a robust and sustainable" business model, and getting in financial investors is "a question of valuation". Khorakiwala could still be in control, he says. As for Wockhardt, even if it were able to raise cash by selling off the two European companies, and a few other smaller assets such as its veterinary business, it will continue to make great demands on Khorakiwala. For one, the company will be strategically weaker. Europe is Wockhardt's largest market, at 54 per cent of 2007 sales. "They will have to rework all their projections," says Baheti.

In parallel, sales from the US, world's largest pharma market, will need a continuous investment in off-patent products to keep growing.

Wockhardt's biotech business — once touted as the future growth engine — has underperformed, some say, because the firm has focused on the global generics market. "They were early entrants in biotech and fairly active," says a manager in a Wockhardt rival in Hyderabad with biotech interests. "But the business seems to be suffering from a lack of attention rather than capability." Wockhardt was the first Indian firm to launch home-grown, genetically engineered human insulin in the country in 2003. But even now, biotech is barely 3 per cent of total revenues.

One more concern is what the current crisis could do to employee morale. At the best of times, Khorakiwala, seen to have an autocratic management style, has had a problem retaining professionals. Wockhardt does not have a clear succession plan either.

Given these facts, should Khorakiwala pick his bets and exit his pharma business like the promoters of Gurgaon's Ranbaxy Labs? Last year the Singh family of New Delhi sold their stake to Japan's Daiichi Sankyo for Rs 10,000 crore to focus on hospitals and financial services.

With their blockbusters facing patent expiry, multinational pharmaceutical companies are keen on buying out generics firms. "While there is cause to sell the business, it is foolish to attempt that in such a market," says the banker. "From a timing perspective he should first extract himself from the current hole."

Others believe that Khorakiwala can stay in the pharma business only by sharpening focus. Kaul, for instance, suggests a separation of the domestic formulations business and merging it into another strong player in the Indian market. In exchange, Khorakiwala could hold stake in this combined entity, he says. That will allow him to focus Wockhardt's resources on the exports story, he feels.

"He has to make choices," says a Mumbai-based consultant who has worked closely with the firm. "The group is in too many diverse areas, with too little capital and too much leverage."

For 40 years, Khorakiwala — who eschewed his family's bakery and retail businesses to strike out in healthcare — has run his companies on his own terms. Will he now be forced to sell on someone else's?

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THE MINORITY SHAREHOLDER RISES BUT...

Lack of regulatory support makes it difficult for investors to take on companies for errant decisions

Company	When	Contentious issue	Result
SIEMENS	January 2009	Some shareholders question the company's management on the valuation of a Siemen's subsidiary which was sold to Siemens AG's international subsidiary	Management says the valuation done by Grant Thornot is fair, and that no shareholder approval is required for the divestment decision
NOVARTIS	July-Aug 2008	Reliance MF questions company decision to lend cash to group companies instead of returning it to shareholders	Company dismisses the charge saying interest payments on advances to group companies are market related
DLF	2006-07	For more than a year before its IPO in June 2007, minority shareholders of unlisted DLF* complain to Sebi and the government about deliberate non-dispatch of debenture rights issue in December 2005, and being denied the later conversion of debentures into shares	The Ministry of Company Affairs and Sebi make the company compensate the investors by way of issuance of shares to minority shareholders.
ORBIT CORPORATION	April 2007	Surat-based Investor Protection Forum filed a court case against the company's disclosures in its April 2007 IPO offer document not being complete and hiding details of four out of 16 sites of the companies' operations	Sebi ignores repeated complaints by the investor group and the Bombay High Court dismisses the petition in July 2008

Source: *BW* research * Listed in BSE till 2003

Note: Earlier listed in december 2003

Gaining Momentum

by Rajesh Gajra

The Satyam case has given more muscle to shareholder activism

WHEN INVESTOR IRE FORCED FORMER SATYAM Chairman B. Ramalinga Raju to abandon his attempt to buy privately held Maytas Properties, it was a shot in the arm for minority shareholder activism in India. The incident helped increase awareness about the rights of shareholders, even though it may not have directly led to more such activism in other companies. "We have seen an upsurge in tendency among some of our clients, institutional and private equity investors, to use the Satyam episode as a stick to question the managements of companies on their strategies in the current competitive environment," says Saurabh Mukherjea, Mumbai-based head of India equities at Clear Capital, a global equity research company.

The Satyam experience has also encouraged small investors to speak up. Sunil Kothari, is one such investor. Kothari has been a shareholder of Siemens — which is listed on the BSE and NSE — for the past 10 years and currently owns 1,000 shares. In early January, the board of Siemens — itself a 55.1 per cent subsidiary of German parent Siemens AG — decided to transfer its stake in its 100 per cent Indian subsidiary Siemens Information Systems (SIS) to Siemens Corporate Finance, a 100 per cent subsidiary of Siemens AG, at a net value of Rs 449 crore that included Rs 247 crore towards dividends. Also, as of September 2008, SIS had current assets of cash worth Rs 317 crore and liquid mutual fund investments worth Rs 62 crore, that Siemens would stand to lose.

Kothari and some other small shareholders were unhappy, and felt there was no need to hive off SIS so suddenly, especially given that it had posted revenues of Rs 994 crore in FY ending September 2008, and had profit before tax of Rs 73 crore (after factoring in a forex loss of Rs 30 crore). "At least, they could have sought shareholders' approval," says Kothari. In Siemens's annual general meeting held on 30 January, these shareholders asked the company why SIS was sold off so cheap. The Siemens management brushed aside their protestations, saying that the valuation was done by Grant Thornton, that a global realignment had resulted in change in business model of SIS (which in turn lowered its profit margins), and that it was not required by law to seek share-

holders' approval for such a divestment.

For minority shareholders — both institutional as well as individual — to become more vigilant, authorities such as stockmarket regulator Securities and Exchange Board of India (Sebi) and the Ministry of Company Affairs need to take note of the lessons that cases such as that of Siemens hold. It is not just about companies seeking shareholders' approval, but also about not allowing promoter-shareholders from voting in a resolution about a deal involving them or related parties, as happens in few western countries. So, for instance, in the Siemens case the parent company Siemens AG would not have been allowed to vote against any resolution involving SIS as another of its subsidiaries was the buyer.

Cases such as Siemens's and Satyam's have been on the rise in recent times, but shareholder activism is not a new phenomenon.

In 2003, shareholders in Sandvik Asia, Madura Coats and Reckitt Benckiser had caused an uproar when the companies delisted, and used a provision in the Companies Act to cancel the remaining minority shareholders' holding by paying them off with the offer price. Janak Mathuradas, 51-year-old financial services professional, then had led the fight along with about 20-30 other individual shareholders. They could not succeed in preventing Madura Coats from going ahead, but succeeded in the other two cases. "Reckitt Benckiser gave dividends of Rs 225 per share in the past three years, while they were trying to buy our shares back in 2003 by paying us just Rs 260 per share," says Mathuradas.

More recently, before Satyam, Reliance Mutual Fund, a shareholder in Novartis India, had objected to the way the pharma major utilised its free cash of about Rs 400 crore by making advances to unlisted subsidiaries of its parent company, Novartis AG. That was a rare case of a domestic institutional investor trying to influence the business decisions of a company it was invested in, something that immensely pleased small shareholders. Manish Banthia, a 37-year-old chartered accountant, holding 3,000 shares in Novartis, was one such. "Many multinational companies having listed subsidiaries in India are transferring profitable brands to — and launching new products under the aegis of — other unlisted subsidiaries," says Banthia.

Another recent case, this time by shareholders' representatives among the broking industry's analysts, was that of S. Kumars Nationwide. The company was forced to respond to alarming questions on 6 February from an analyst firm and organised a tele conference to address their queries on 10 February.

The past few years have seen more cases of shareholder activism, but there has been no progress in their empowerment by regulators and the government. It is only because of the Satyam case that the minister of company affairs, Prem Chand Gupta, was motivated to state recently that he would like to treat minority shareholders as whistleblowers. "When fraud is proved, the government and Sebi should disgorge the illegal profits from company managements, but do we see that happening in the Satyam case at least?" asks Virendra Jain, director in Midas Touch Investors Association. "There are many cases where listed companies get delisted and minority shareholders get shortchanged and there has to be a watchdog that is able to take concrete action," says Satish Ramanathan, head of equities at Sundaram BNP Paribas Mutual Fund.

An email to Sebi Chairman C.B. Bhave on the issue of empowerment of shareholders through listing agreement clauses was unanswered. "Voting through SMS and internet by password-authenticated shareholders can be made mandatory by regulators," says V.R. Narasimhan, company secretary and chief compliance officer at Kotak Asset Management. "It will help in quickly ascertaining shareholder approval or disapproval on a particular issue." Simple solution, and implementable. There would be other ideas, too. But are the authorities interested?

AP

CAN OF WORMS: Minority shareholders are questioning company decisions which work against their interest, more so after the Satyam scandal

With inputs from Gauri Kamath

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A Delicious Proposition

by Shalini S. Sharma

Restaurants catch up on a growing trend of out-of-home breakfast

TWO PRETTY, WELL-TURNED-OUT YOUNG WOMEN eating out at McDonald's is not an unusual sight, albeit pleasing to the eye. What is unusual in this case is the setting. It is a winter morning in New Delhi, and the McDonald's outlet in the capital's central Janpath locality is abuzz with, yes, 'breakfast' activity. Inside, digging into a delicious-looking hot cake with maple syrup is Aditi Gaur, 19, a student of history at Miranda House College in north Delhi, accompanied by her friend Aranya Shankar. "This is irresistible," says the rather healthy Aditi, without an iota of guilt. "At times, I skip my omelette-bread at home to have breakfast here. The hash brown and sausage patty in the new McDonald's breakfast are great." It is a refrain not uncommon among the crowd in the outlet, which comprises primarily young students and office goers. The new Metro railway station nearby has led to a lot of students transiting via centrally located Connaught Place to reach Delhi University, with an additional stopover at Janpath's McDonald's .

However, eating breakfast out of home is not a trend restricted to the quirk of a new metro station in Delhi. Changing lifestyles and preferences are increasingly making it convenient to have the most important meal of the day outside home, at least in urban India. Says Samir Kuckreja, CEO and managing director of Delhi-based Nirula's, which has been in the segment since 1978, "Changing consumer behaviour, increase in nuclear families, leisure spending and, perhaps, catching-up western culture, are responsible for the growing demand of eating out even for breakfast."

With urbanisation growing at a rapid pace, a switchover to a westernised breakfast is also seen as aspirational. As Connaught Plaza Restaurants (which has a joint venture with McDonald's) MD Vikram Bakshi says, "From eating out to eating out in the morning can become aspirational when people know they will get good quality at a reasonable price." McDon-

PHOTOGRAPHS: TRIBHUWAN SHARMA

EARLY BIRDS: McDonald's new breakfast platter has found many takers

MORNING BITES: Healthy breakfast options available in restaurants are driving people to skip the morning meal at home

ald's has even done a survey to check out the trend. In a sample size of 1,200 in the age group 15-39 years comprising both professionals and students across Delhi, Mumbai, Hyderabad and Ludhiana, a significant 18 per cent was found to prefer breakfast out of home. Mumbai was found to have a higher percentage of people having breakfast out-of-home compared to Delhi.

The chain is selling a typical American breakfast of muffins, hash brown, omelettes, toast and coffee at three outlets in Delhi NCR — Janpath in Connaught Place, Manesar in Gurgaon, and Noida Sector 18 — and five outlets in Mumbai — Vile Parle, Phoenix Mills, Vashi Sector 17, Fort and Kalamboli. "Further studies will be carried out on the demand pattern and consumer response before the menu is finalised and launched at an all-India level sometime by the end of this year," says Bakshi. He claims that during breakfast hours (between 7 a.m. and 11 a.m.), revenues in outlets that are offering breakfast are up by 250 per cent. Since its launch, breakfast's contribution to total sales in the outlets has gone up by 10 per cent.

Mumbai, of course, is not new to out-of-home breakfast. The long commute, coupled with the new aspiration, has made breakfast an attractive business. A number of typical continental breakfast joints here have become rather popular, including Sun Dance Café at Cuff Parade and Mocha-Coffees & Conversations at Churchgate. Says Gresham Fernandes, executive chef of another such outlet, Saltwater Café at Bandra, "Even though we operate in a semi-residential area, we get customers for breakfast, which comprises eggs, croissants, waffles and pancakes. Interestingly, the trickle starts only after 10.30 a.m. when people have first settled down in their offices and only then think of having breakfast."

For Delhi, the trend is newer compared to Mumbai. Apart from McDonald's, Nirula's Potpourri has a special buffet spread on weekends, and on weekdays people can order their morning meals from the regular menu. Choko La, a popular breakfast destination at Khan Market, says it has seen almost 35 per cent rise in traffic in the past one year. Its clientele includes lawyers who exchange notes with clients early in the morning, foreign diplomats who reside in the vicinity, and young mothers who drop their children to schools and then gather here for a leisurely cup of coffee and sandwiches. According to The All American Diner, a restaurant in New Delhi's India Habitat Centre, more and more official meetings take place over breakfast now instead of over lunch or dinner.

Most of these new breakfast joints are trying to cash in on one of two overlapping markets. One, the pure early morning breakfast for people working late night shifts and catching breakfast before going home — such as those working for call centres — and the increasing number of party goers who like to dance till the wee hours of the morning and then go off to sleep after tanking up on a hearty meal. The other market is the mid-morning snack market of people who have long commutes.

However, not everyone believes a market for breakfast exists. "Adding infrastructure for such operations requires massive investments," says Sumeet Chugh, managing partner of Nizam's Kathi Kebabs in Delhi. "There are simply not that kind of volumes at present." Adds Unnat Varma, marketing director of Kentucky Fried Chicken (KFC): "Breakfast is not the largest category yet in India." Dev Amritesh, senior vice-president at Domino's, even puts a number to it: "According to our estimates, out-of-home breakfast accounts for only 1 per cent of the out-of-home food market in the organised sector. We don't see this becoming a large market possibility for us."

True, the numbers are small at the moment. But there is not much doubt that the breakfast segment is growing, and has future potential. For now, entrepreneurs who venture into this unchartered territory or existing businesses that do so with minimal tweaks in their current setu ps are sure to find it a delicious proposition.

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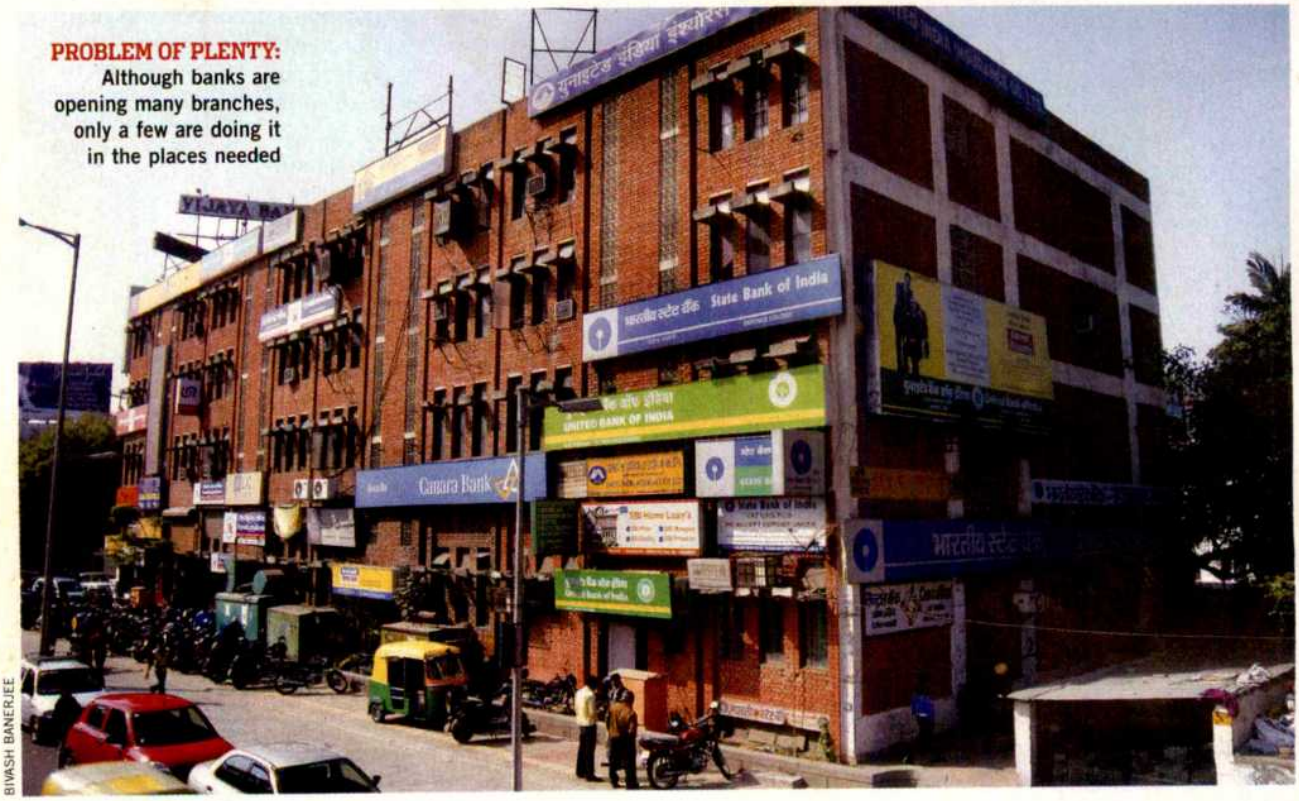
Fast Facts

- Out-of-home breakfast is more popular on weekends with 17 per cent people preferring it to only12 per cent on weekdays
- In Delhi, out-of-home breakfast consumption is restricted largely to weekends, while in Mumbai it is popular through the week
- People have out-of-home breakfast alone on weekdays but it is more of a social affair on weekends
- In-home breakfast menu is largely dominated by north Indian vegetarian food in Mumbai, Delhi and Ludhiana
- Non-vegetarian breakfast, comprising mainly eggs, is consumed more on weekends



PROBLEM OF PLENTY: Although banks are opening many branches, only a few are doing it in the places needed

BIVASH BANERJEE

Branch Economics

by Raghu Mohan

Banks need to rethink their branch business model

BANKS HAVE BEEN ON A BRANCH-OPENING SPREE of late. Between June 2007 and June 2008 — the last month for which data is available — 3,829 branches were set up. That translates to over 10 branches a day.

This should have been a cause for some cheer. A hugely under-banked country, India has one branch per 15,000 people compared to the US's 2,720 people per branch. The ratio in Germany is 1,945:1, in Japan it is 3,968:1, Hong Kong 4,545:1, France 1,587:1, Canada 6,410:1 and in Sweden it is 4,672:1.

For some time now, the Reserve Bank of India (RBI) has been exhorting banks to set up branches in rural areas and other places such as the Northeast, where there are relatively few bank branches.

The trouble is that the current spurt in bank branches is unlikely to solve the core under-banking problem. While the RBI would like 25-30 per cent of all new branches to come up in rural areas, the bulk of the new branches are actually coming up in urban areas, which already have more than their fair share of branches. Indeed, apart from the government-run banks, no one seems particularly keen in setting up branches in rural areas.

The current burst in branch-building has actually worsened the rural–urban ratio. The share of rural branches dipped to 40.7 per cent at end-June 2008 from the 42.1 per cent in the same month a year ago. Worse, in November 2007, then RBI deputy governor, V. Leeladhar, pointed out that nearly 30 per cent of new branch approvals were not implemented.

The share of the Northeast in total branches is the lowest at 2.7 per cent at end-June 2008 (see 'Regional Pie'). During July 2007 to June 2008, most of the new branches were opened in the southern region (1,147, or 29.9 per cent of new branches) and central India (854, or 22.3 per cent). Yet the average population served by a single bank branch declined only a tad to about 15,000 at end-March 2008 from about 16,000 at end-March 2007.

Meanwhile, all new private sector banks as well as the international banks operating in the country are focusing on the cities. And it is the sheer economics of bank branches that is really responsible for this.

REACHING THE CORNERS?

The number of bank branches has seen a sharp increase in India

Bank group	Number of bank branches					Number of ATMs		
	Rural	Semi-urban	Urban	Metro-politan	Total	On-site	Off-site	Total
Nationalised banks	13,198	8,140	8,440	7,997	37,775	8,320	5,035	13,355
State Bank group	5,328	4,545	2,820	2,421	15,105	4,582	3,851	8,433
Old private sector banks	808	1,498	1,270	874	4,450	1,436	664	2,100
New private sector banks	223	870	1,147	1,285	3,525	3,879	5,988	9,867
Foreign banks	0	2	48	224	274	269	765	1,034
Total	19,557	15,055	13,725	12,801	61,129*	18,486	16,303	34,789

Figures as of end-March 2008; the figure does not include branches of regional rural banks and local area banks. Source: RBI

The Economics Of Bank Branches

In the old days, bank branches were the primary points of contact for customers looking for transactions such as cheque clearances and deposits, but it is a costly way of doing business for banks. With automation setting in, these transactions can easily be handled by automated teller machines (ATMs), call centres, mobile and internet banking, which are far more cost-efficient routes for banks.

A global study on bank branches in 2003 by Booze Allen Hamilton was categorical that it is not enough for banks to simply open up more branches that run like existing ones or to redesign them to resemble hip retail stores. The existing model for bank branches is veering towards using them as financial supermarkets for selling a range of money-related products from credit cards to insurance and loans. In fact, that is a model most private banks in India are following. And this model works best in urban areas, not in rural — the one reason why most branches are coming up in cities instead of villages. A more recent study on India (March 2008) says that branch banking is still relevant. The difference lies in how a bank goes about it.

Take Yes Bank, for instance. It currently has 117 branches, but wants to ramp it up to 250 within a couple of years. But these are not designed as cheque transaction outlets. Rana Kapoor, managing director and CEO of Yes Bank, says, "Branch banking is undergoing a paradigm shift with branches becoming service and wealth distribution centres."

And that explains the exponential increase in ATMs. Installation of ATMs grew by 28.4 per cent to 34,789 at March end 2008.

While the ATMs installed by foreign banks and new private banks were nearly four and three times of their branches, respectively, the same was much lower for state-run banks (41.2 per cent) and old private sector banks (47.2 per cent).

A Booby Trap?

Of course, not everyone is convinced that even this model will actually help in taking care of the sheer costs of running a branch. Shyam Srinivasan, country head for consumer banking at Standard Chartered Bank in India, admits that real estate costs are a factor. "Property prices may have come down, but it is not always possible to renegotiate them. Typically, 30 per cent of a branch's costs are accounted for by premises."

In urban areas, this is particularly critical. For state-run banks, the operating profit per branch is at about Rs 1-2 crore a year; it is Rs 4 crore for new private banks, while for foreign banks it ranges between Rs 30 crore and Rs 100 crore. Clearly, state-run banks need to rethink their branch business model.

So, a bank has to be smart as it rolls out new branches. Though technology has helped mitigate the disadvantage of a vast branch banking network, a physical branch still follows a 'hub-and-spokes' model. The physical branch acts like a hub, and serves an area within a certain radius. As a bank gets more hubs going, its sphere of influence increases.

Some banks are following a slow-down strategy. K.V.S. Manian, group head, retail liabilities and branch banking at Kotak Mahindra Bank, says that the bank plans to scale down the branch target to 210 in the year ahead. Given the fact that it had plans to open 76 new branches in 2008-09 taking the total number of branches to 250, that is some tapering off.

Looks like it cannot be business as usual for banks: it's reflection time.

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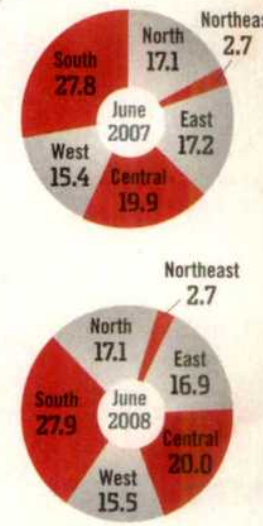
REGIONAL PIE

Though share of central region has gone up a bit, the east has seen a decline. The North-east lags way behind



Figures are regionwise percentage share of bank branches as of end-June 2007 and end-June 2008
Source: RBI

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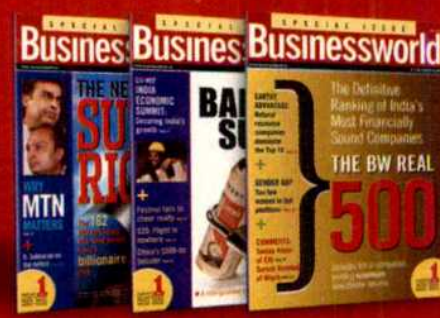

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Courting The 24/7 Customer

"We have heard you..."
— Advertsing Age, quoting Kathy Widmer,
vice-president, consumer marketing, J&J's McNeil Consumer Healthcare, to critics who brought down J&J's Motrin Mom campaign

by meera seth

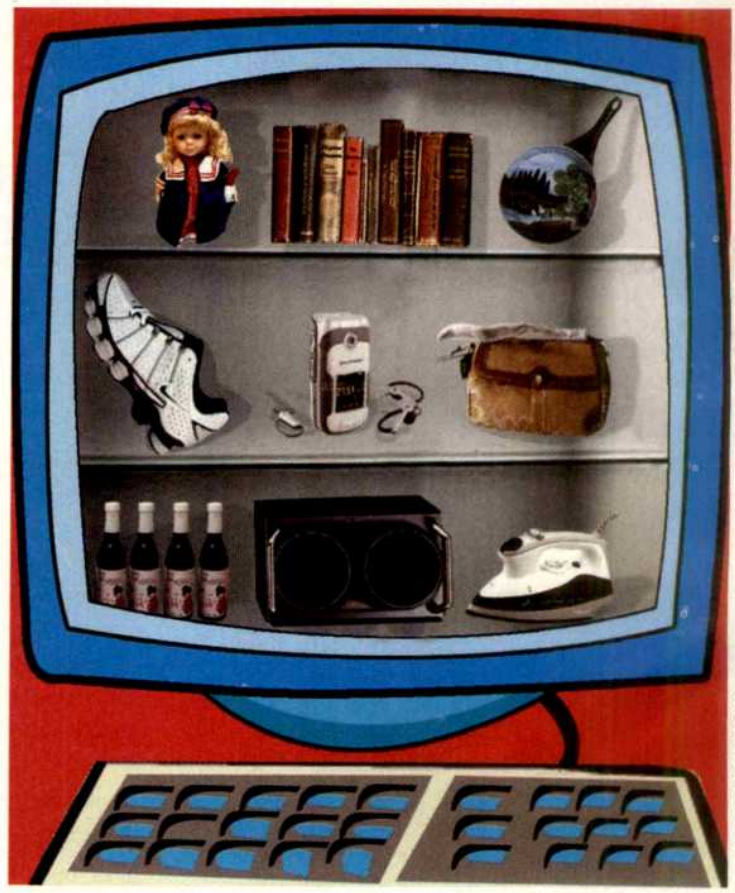
AKHIL LAL PEELED THE POST-IT FROM HIS TABLE top and read it. That message was the last thing he needed. There was enough he was battling to yank up sales and often he felt there was a serious undercurrent of desperation that was making them at Symphona India do acts they would not have done during saner times — such as clambering onto the internet — which was the most harebrained, he mused.

Akhil was the head of marketing at Symphona, a home and kitchen appliances company. A few minutes ago, Pratyek Bhamb of Glory Sun, a dealer in Maharashtra, had given up his Symphona dealership to take on Probha, a medium-sized Indian brand. "I never thought that after 20 years I would have to do this!" Bhamb had said to Symphona's sales head.

Ever since Symphona had launched its point collection scheme, dealers had been annoyed. Just before Dusshera 2008, Symphona did a Maha Bumper Sale which helped a buyer collect coupons on his purchases. Every purchase converted to points, which the buyer could redeem only through online purchases. So, Rs 20,000 converted to 200 points, and so forth. Dealers like Pratyek had griped, "We have pushed the brands, encouraged buyers to buy, and then the company goes and reaps the gains online? This does not make sense; we should be getting these redemption sales!"

Sim-City, Symphona's product website, had been set up by his predecessor Rudra Reddy; the rationale being increase awareness, net in more sales through points redemption and thus also garner greater consumer insights. Akhil did not have faith in this strategy. The Net had its uses, he agreed, but in the current erratic market, he did not want to spread his attention thin. But neither would he tamper with it now, he decided.

Now, Symphona was perceived as a premium-priced brand, but customers also thought of it as dependable, good and trustworthy, so much so that surveys had shown that people who used Symphona rarely used another brand if that product was available in the Symphona basket. So, if one was an owner of a Symphona juicer and Symphona shaver, and he wanted an MP3 USB, he necessarily bought Symphona's Sym-run. But now with the recession fever raging, Akhil had a problem: the visitors to Sym-City had begun to drop.



Illustrations: SATKAR J. YONZON

Prahlad Gopalan, the web manager, did not agree. He said, "Why would people not come to my site during a recession? They should come to see if Symphona is offering any discounts, if any new product has been launched... those are relevant events in Web markets!"

Rudra's idea had been to move beyond discount offers and promos. He wanted to give loyalists focused attention; hence, he began to

work the website route. But now, Prahlad was wondering was wondering why traffic had dropped on Sym-City, "Times are really strange. In the US, online dating sites are getting more traffic and, hence, more money than they used to before recession!"

Akhil was perturbed even more now; all this was wasting good time which he needed in the markets. But he did not want to rubbish Rudra's work to his team. "A visit to the site need not be with an intention to buy, it can be something else. How else do we keep the brand fresh in the minds of people? OK, let us get some more people on this and see where we get." So saying, Akhil called in the sales manager for western region, Dhruv Munjal, the brand manager for Rasoi Raja, Gitika Sawant, and the head of Symphona Speed, Imran Choudhary.

Dhruv: Maybe we look at the few people who did visit the site, check their reasons for visiting, and maybe we get some cues from that?

Imran: See, the way I see it is we must use the website to generate interest, encourage building a wishlist. Granted that during recession people don't want to buy, but we must keep talking enough to keep the interest high. Afterall, tell me, do you think the recession is forever?

Gitika: Boss, how much do we actually sell from the Web? Mostly it is dealer sales, no?

Imran: Yes, I agree, but the buyer is changing a lot, and the market has to create new forums for him. The buyer, if you pay attention, is one entity with two compartments in his head that he uses to operate a single market. There are those who go to a dealer and examine say a laptop or an MP3 player. Then they collect brochures and ponder for many days. Then there is the other kind of customer; say he is working on an excel sheet and suddenly he thinks about a portable DVD player. He wants to examine the viability of that dream... and he opens a new tab and rushes to our website to check our portable DVD player... what I am saying is, the buyer is also distracted! We must capitalise on that distraction...

The user today is smart; he goes online, learns about the prices and options, and then goes to the dealer and quoting Brand X he starts negotiating.

So, internet is very important for Symphona.

And what had triggered Akhil's anxiety? Various things. Beginning with a customer mail and ending with Glory Sun's quitting. Akhil switched windows and tracked the mail from Ramanuj Dayal (who signed off as business head from an MNC): "I have been buying all my appliances down to an iron from Symphona. I knew I am paying a little extra over other brands, but I was satisfied and felt assured with Symphona even for a low usage item like fluff remover. But today when I wanted to buy an MP3 player, I found that the difference between Symphona and local brands — such as Pali, which used to be 20 per cent, has increased to 50 per cent! Isn't this absurd?"

"The user today is smart; he goes online, learns about the prices and options and then goes to the dealer and quoting Brand X he starts negotiating. So, internet is very important for Symphona."

Imran nodded sagely and said, "I know where he is coming from. By his own admission, Symphona assures him of quality, yet today he is suddenly crying 'expensive!' But this is very common in recessionary times. We do see strange behaviours, people are prone to blame the brand for being expensive. Just yesterday, my son lost his school badge on the school bus. My wife was very angry when the school charged her Rs 65 for a new one. She blasted the school for overcharging on everything. 'You already take fees of Rs 6,000, why do you want 65 for — and she said, 'a stupid badge'. She forgot that it has always been 65!

"But at another level, this buyer is saying, 'This is a home appliances company; when technology has practically equalised, why is your mp3 player three times more expensive than Pali, when colours, finish, warranty, everything is the same.' That's all!"

Prahlad stepped in gingerly with, "Actually, there are many users who have mentioned things like this". While Dhruv interrupted with, "Akhil, the customer is looking for a hook to hang his anger and the hook is the brand, *bas*!"

Akhil was weighed down; *consumer is angry with the brand because of his perception that it is expensive.*

Gitika suddenly said, "How about this: let us get the consumers on an online forum where we get them to discuss the brand; *Haan, thoda* stage manage *karna padegaa*."

Prahlad protested, "How did you forget that you started this for our pressure cookers during Diwali, Gitika? Then those ladies said great things and we gave them a cooker each; have you seen the forum recently? Diwali was different, I guess the season was engaging; *abhi jaake padho*. Last week, they have hammered the brand. That forum is lethal for image. See, the website cannot be seen distinct from the main markets. You are the brand guys; you should examine what is going on. It is not a stadium for planning events; it is a real place very much like Karol Bagh or Crawford Market."

Akhil squinted, "Why, what have they said?" Prahlad explained, "One lady put her cooker in the dishwasher and she is angry... the handle has lost colour and has begun to look terrible; another lady living in Oman has written that she thought the cookers we sold in Muscat were specially created for the export market and expected it to be better. She said that the handles break over time! Here, let me take you there... here, read, 'In a Rs 2,000 stainless steel cooker, they

use such third rate material for handles; I know you get handles at Al Fayed to replace, but I am not running around doing things like that. I have changed over to Hallafi, a local brand."

Akhil said, "But our cookers are not dishwasher friendly! The salt in the dishwasher stains the aluminium ones at least... not good."

Dhruv was annoyed, "How come we are not alert to the changes in the market? Marketing should be feeding us data. More and more women have dishwashers. Why, we sell them in India too. So why doesn't our product literature carry a one line caveat: 'Not dishwasher safe'?"

Prahlad was still reading the pressure cooker forum; he said, "There are three pages of discussion on this brand called Hallafi, which they swear is dishwasher-friendly, handles don't fall out, screws don't fall out and one lady in Mumbai has confirmed that Karimboy's in Crawford Market sells them."

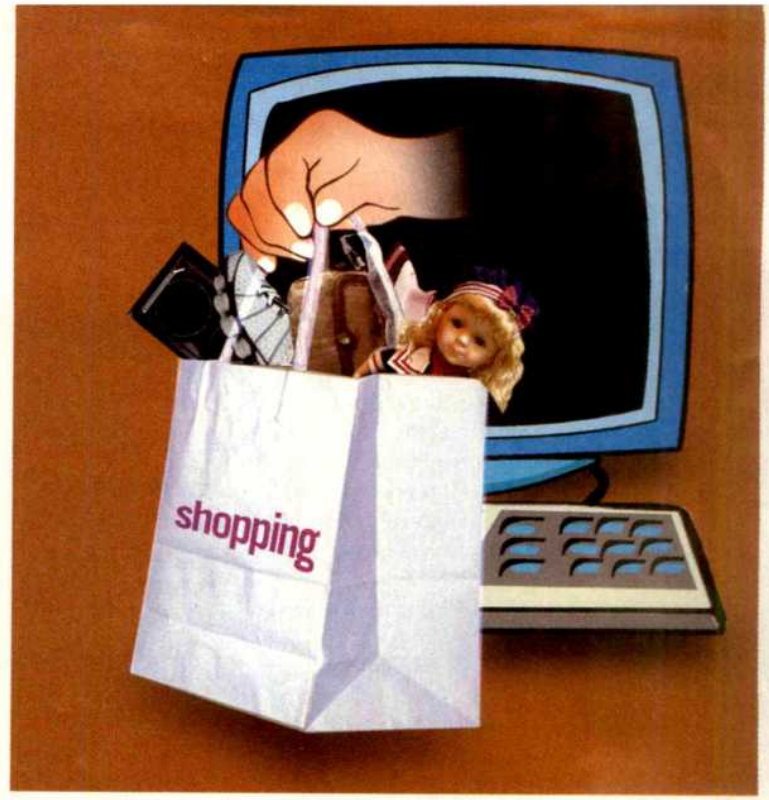
Akhil swung Prahlad's laptop around and glanced at the posts. "Good lord!", he whispered, "The ladies are sitting on our website and selling Hallafi!"

Imran added, "You want to bring back the audiences, but see, the audience is performing on our stage! Akhil, listen, we do need to bring back the audiences, but before that we need to sort out the registration failure mess. Let me explain: remember we wanted to get our customers to register their purchases online so that we also get a solid data base? Now what has happened is that our registration process is not smart enough.

"See, the problem is pressure cookers have model numbers, irons have serial number, vacuum cleaners and hair dryers have a different number, mixies have chassis number; whereas the registration page provides for only 'model' number and is not geared for an alpha numeric code. So, customers are unable to fill the forms. I feel before we try all this online stuff, we must streamline and standardise all this. If not, we are going to end up annoying customers."

"In fact that was also why this points scheme was launched," offered Prahlad, "So that while people begin to use it, we will keep correcting the issues. But now the points scheme has caused more grief. I have some mails from buyers who are saying that the points did not make any difference to price!"

Akhil was tired now. This scheme had flopped quite badly. After reading Glory Sun's mail this morning, it struck him he knew what was going on. The points scheme had a fine print that said 'valid for two months'; intention was to also improve year end sales and give a covert incentive to buy Symphona's tiny MP3 player 'Nanhe', a competitor of Nano. *I did think everyone would encash for Christmas... And that seems to be badly planned.* He now asked Prahlad, "Say, how many mails you get everyday?" Prahlad said, "120-150."



"I do not believe in the online markets for something as traditional as white goods. India is a touch-and-feel country, people here don't buy refrigerators looking at a website."

Akhil: How many do we reply every day?

Prahlad: None Akhil... we don't know what to reply.

Gaurav could not help smiling. And suddenly the stress of all these weeks found escape; everyone there laughed quietly, for there was nothing else to do. "This is absurd," said Akhil. "I will call in a brand strategist and let us discuss this. This is a new concept, and we are all unclear what to do."

Akhil felt confused and to an extent irritated. He really wished he had been alert to what he was inheriting. When he replaced Rudra, there was a ceremony of handing over all kinds of pieces of paper. Rudra did mention Sim-City, but Akhil, caught in the rush of accomplishing everything before Rudra's last day, had let it pass. After all, he had thought then, what is there to a website?

In hindsight, he was amazed at how much there was to the website, which had been neglected. And this is what he told Jamini Singhal, a brand advisor who he recalled with surprise used to be in school with him, "It's just that I do not believe in the online markets for something as traditional as white goods. India is a touch-and-feel country, people don't buy refrigerators looking at a website. Anyway, that is hindsight. Truth is I inherited this website and was not expecting anything like this mess.

"See, the Web is something you went to and exited and when you exited, it ceased to exist!

What I did not realise was that it continues to exist even after you have exited!", and Akhil laughed at his own predicament along with Jamini, who agreed that most people at least once in their life encounter one such absurd illusion.

"What I feared happened," he added; "I wish I had been attentive; I would have had my act right! Today my site is dotted with people who are saying stuff about my brands, discussing other brands, and so now sitting on my site, one can get information about other brands.

Jamini: As I now see it, your predecessor had two objectives: one, to encourage online transactions, and two, invite consumers to give honest feedback.

Akhil: Well, I guess he did not realise that 'honest' included negative!

Jamini: Actually, this is an issue most companies are facing — whether to trade transparency for open criticism. Well, it's a different age now — there is a lot of transparency in the environment anyway, and regardless of whether you offer a forum on your site or not, consumers are discussing you elsewhere on blogs, discussion boards, cellphones, etc.

Akhil: But the difference is I as the marketing head am not seeking those comments, you see. Whereas I thought I will mingle with my consumers, find out about consumer need gaps, why they like my brand, I would listen to their problems... instead they come to my site and hammer me for high-priced products and tell me that Usha is cheaper!

Jamini (laughing): Yes, that also happens, and I am sure it happens to Usha too. See, the internet is a medium that is very different from any other; while it allows you to reach consumers in a more targeted way, reciprocally, it empowers the consumer to talk back to the brand. You will see company blogs and discussion boards start buzzing almost immediately about new products, new movies, new ads, etc. It is an excellent research tool that way.

Akhil: Research! I have MR for that, but if this will increase sales, that would be nice.

Jamini: It is a process; it first allows consumers to market to each other, through active peer-to-peer marketing. Go visit some of these — they are places of congregation, where participants actively seek and share information, individual experiences, the problems... it's like a virus!

A good example is any equity analyst's blog. Their blogs are buzzing with recommendations by 8 am; by 9 am, 200 people have Blackberryed and trashed the recommendations, by 11 am, 500 have traded based on this very data! It is real time selling and buying.

"The internet is a medium that forces you to change the way you deal with your consumers, Akhil. The cameras are constantly following you; the only thing to do is the right thing!"

Akhil: All that you are saying is comforting for a consumer... but what about the marketer? Won't their talk disadvantage my brands?

Jamini: Can you depend on the dealer and retailer for perfect consumer information? Here you are in direct touch with the consumer himself. What more could you ask for? Here you can observe consumer interactions unmonitored, un-coached; and everything is real-time, costs nothing, and enables quicker brand responses.

Akhil was not impressed yet. Jamini was speaking a consultant's script. Consultants visited brands and exited... none of them owned responsibility for the brand. How difficult was it then to make these recommendations? *If I think of using the internet, I have to be prepared to give up control, because I would be handing over the brand to my consumers to comment, contradict, criticise and transparency means allowing these to be seen and known by all! And do I have less to deal with? Now, I will have to be on my toes all the time to resolve complaints of every kind.*

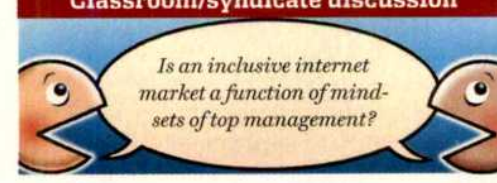
And just when he thought she was doing a hardsell of the online biz, Jamini said, "The internet is a medium that forces you to change the way you deal with your consumers, Akhil. The cameras are constantly following you; the only thing to do is the right thing. But there is a catch — you need to be sure before you continue." Now came the caveat, "Choosing to be online and available is a stretch that has to be subscribed by the entire organisation — simultaneously.

"Therefore, every one in the chain of command has to be constantly alert to the brand calls. It is a strategic advantage that you are buying into Akhil, but it is a tool which can be applied only jointly. One lone marketing manager cannot work with it and if he tries he is going to hurt the brand. It is a lot like HR — it has to be 100 per cent all-round buying-in. So, do this only if you have commitment down and up the chain of command to become truly consumer focused."

When Jamini left, Akhil returned to the little message on his table... *Marketers forget the brand belongs to the consumers; the internet allows the brand to be returned to its consumers.* Now it made sense...

casestudymeera@gmail.com

Classroom/syndicate discussion



Online Business

The marketing matrix is moving from traditional reach to an outcome-based one

WELCOME AKHIL, TO THE REALITY OF INTERNET marketing — the new media that has enabled the customer to call the shots and forced marketing to adapt. It is now no more about talking to your customer on your chosen platform, but about listening to them on theirs — as well as yours! They are in Blogs, Youtube, Wikipedia, RSS, Facebook, LinkedIn and Twitter to name a few, discussing and deciding whether your proposition is worth their time. Nor is it about believing in the invincibility of a brand to determine its price, as with Symphona; for a brand is not what you say it is but what they say it is. In today's buzz scenario, being rejected means a competing brand could gain significant marketshare almost overnight!

And most importantly, it is not about telling your consumer about your brand's features or benefits, but about how your differentiation is relevant to their needs.

The New Marketing Pathway

The website is not a monologue channel that tells a consumer about a brand's feature or benefit. It is a dialogue medium wherein the consumer's feedback shapes the brand's differential proposition. After the listening process, a brand's offering is redefined. For example, the sore pricing issue of the cooker could be hinged to the safety legacy of the brand. The redefined offering is now communicated through digital tools seeded in various consumer channels — for example through viral brochures with eminent bloggers to reverse the criticism flow. The relationship between advertising and sales is tracked with more precision along each touch point from browsing to sharing and buying. Therefore, we see the marketing matrix moving from traditional reach and frequency to a more 'outcome'-based one.

Smart marketers extract long tail key words —'non-breakable pressure cookers handles' from consumer sites, tag them to YouTube that eventually leads viewers to their website. Such seamless cross-channel marketing involving blogs, RSS feeds, bookmarking, link strategies, opt-in emails, re-targeting where there is interest among others are cost-efficient methods.

The Trade-Off

■ Jamini is totally right. It is a trade-off between transparent relationship and open criticism. You can't escape criticism. It is happening in all emerging media. So why not defend it on your own platform? A consumer is no more a list or number. They are individuals who demand a transparent relationship. They buy you if they trust that you have their interest in mind above yours — as in any relationship.

■ The Web is meant to ease purchase and not create obstacles. The coding should be uniform across Symphona products and the payment process tested for weeks so as to facilitate simple and quick buys.

■ Dealers are the offline face-to-face evangelists and their loyalty is imperative. Online redemption is a branding exercise designed to enhance awareness that would lead to greater offline sales.

Brands Won't Win Without Good Leaders

Increasingly, companies are mixing and matching roles to form different collaborative paradigms. Others are behind the curve, unaware there is a revolution afoot.

We are seeing the need of an extremely close and symbiotic functioning of the CMO, CBO and the COO. The chief marketing officer (CMO) is responsible for marketing results; the chief branding officer (CBO) has to understand how the competitive values of his brand influence sales-metrics. The COO has to internalise marketing issues with his troops to ensure that operational efficiency is optimised. As is happening in Symphona, the growing importance of a brand has a flip side — its growing vulnerability. A drop in quality, dissatisfied dealers or unanswered consumer anxieties can damage credibility. We see the emergence of an unbundled collaboration with a specialist internet business, branding and creative partner working with a strong inner management team to resolve such issues.

Is It Just Buzz Creation?

Today, brand guardians work with internet marketers to define a success outcome and devise ways to measure this in empirical terms.

If we can orchestrate the engagement in our websites and other channels, we are in a position to influence the prospect. Conversion begins with influencing, and influencing can only happen if we are transparent enough for the prospect to allow us to engage with him.

Measurability makes the CMO accountable. He in turn wants to know "which 50 per cent of his advertising worked" and redesign with the internet marketer, the efficacy of the 50 per cent that didn't. Therefore, traditional 'reach and frequency' methodology is increasingly being discarded for an 'action resulting relationship engagement management'.

Sudhir Ramchandran is CEO and founder of VizioHUB, an online business branding and creative organisation

Web Of Market Talk

Extracting the honest voice of your consumer is a difficult task made easy by Web

ONE OF MY FAVOURITE AUTHORS HAS BEEN DOC Searls. Until last week, I subscribed to his Tweets as well. So naturally, I am going to quote from one of his co-authored books, *The Cluetrain Manifesto*, which is focused on the Web and online communities. It has 95 theses. Here are two memorable ones: "People in networked markets have figured out that they get far better information and support from one another than from vendors. So much for corporate rhetoric about adding value to commoditised products... The networked market knows more than companies do about their own products. And whether the news is good or bad, they tell everyone." Hmmm, you like it? You see what is going on at Symphona with its website? Feel like doing a quick reality check? You can read the entire book online, absolutely free, at *www.cluetrain.com*.

The book, between Theses 32 and 37, argues that the language a company speaks is critical. Mission statements and brochure-blah are weak and seen through by today's savvy customer. They look for suppliers who speak their language, which is basically a human voice. To speak in a human voice, companies must be part of their communities and not hide behind slick commercials and PR departments that are several desks deep. They must ensure their corporate cultures include their communities. Says Theses 37: "If their cultures end before the community begins, they will have no market."

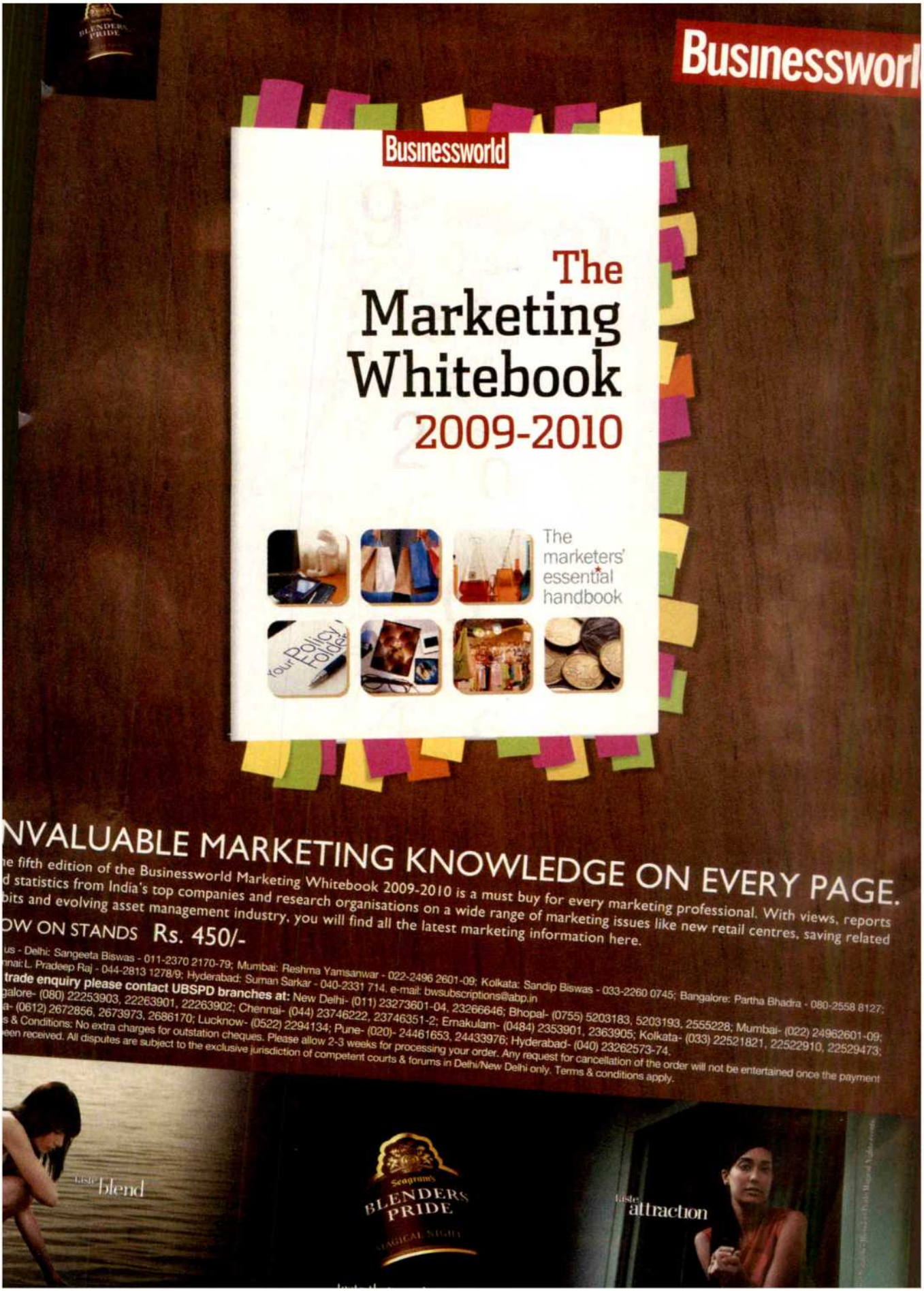
Sim-City is a good accident that has happened to Symphona. But it needs to learn from the strategies of a couple of other companies in how to use a website to keep retailers and distributors happy. One US company, Dancing Deer, that produced natural, baked-from-scratch, preservative-free, kosher, whimsical cookies and pound cakes, usually ensured that the pricing on its site was higher than at a distributor's outlet. The convenience the website offered was ordering from your desk, rather than drive down to a grocery store. In addition, Dancing Deer made some products available exclusively from its website. Try hard as you want, the molasses clove cookies would not be available anywhere other than at Dancing Deer Online. So die-hard consumers would go online, buy some of the exclusive goodies at the website, check out the entire line of products, and then go to the store where all other Dancing Deer products retailed cheaper! It is an interesting strategy: get loyal consumers to your site to check out high-grade, new products and drip-feed them information that benefits your distributors.

But of course, companies that view their online stores as extensions of their print catalogues and order forms are clueless. Which is the point made by Doc Searls: the world is about the clued versus the clueless. Companies that create websites need to think harder than taking their brochures online with a 'Buy' button attached, hoping that purchase impulse will win the day. They need an understanding of online communities. They need a deep dive into the thinking of their consumers. They need a strategy. They need courage, resilience and an unrelenting desire to better their products. And they need to believe that the Web is actually their friend and online interactivity is in fact the biggest invention since sliced bread. But the problem is when 'consumer thinking' presents itself as criticism or product defects and shortcomings, and marketing teams want to hide behind their mouse pad. Instead, they should be re-engineering their brand communication, products, packaging and support based on real user needs. Women are selling Hallafi on the Symphona site? Hang on, can I match Hallafi feature for feature and then outdo it for support? That's the real challenge for Akhil Lal.

The website is telling Symphona stories — ugly but real stories — that it would not have had the opportunity to hear were it not for the website. For example, the website is telling the company that it needs more people to answer consumer mail. It can't just hope that consumer's voice will get smothered before it begins to reflect on the company's bottom line.

Symphona should consider itself blessed because it is able to tap into its consumer's thinking so easily, at practically no cost and with the swiftness no market research can hope to match. Extracting the honest voice of your consumer is a difficult task made easy by the Web. If only Symphona had a couple of real good marketing men who, instead of saying, "Now I will have to be on my toes all the time to resolve complaints of every kind", began to see complaint resolution as a customer retention tool. And if the complaints don't stop, it is time to take the product back to the drawing board instead of wrapping it in complex loyalty-driven rewards programmes that have terms and conditions in fine print. You know the real reason why loyalty programmes fail? It has nothing to do with the fine print. Many companies and products are simply not worthy of a consumer's loyalty.

Arun Katiyar is a Bangalore-based communications consultant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taste blend
Seagram's
BLENDERS PRIDE
taste attraction

GADGETS

The dock

TRIBHUWANSHARMA

IT WAS AN APPLE, IT IS BELIEVED, THAT LED TO the creation of man. Non-believers may debate the veracity of such claims but there can be no arguing the fact that Apple, the company, has created a whole universe of little devices which have made life a little easier, or shall we say better, for many.

Among the recent to figure on that long list are ipods — those ubiquitous devices which can store and play your favourite music for hours on end. But if in-ear playing is not your cup of tea, at least at home, then you can do better than simply connecting your pod to a pair of speakers. Those tuned in to the latest would know that the cool thing to do is to dock your pods in style — in docks, which can cost more than the ipod itself and are armed with a plethora of functions. They do not just snuggle and charge your ipod, but also play the stored music on sharp speakers. When the ipod needs a rest, the docks can be put to other uses — connected to the computer, the television or a DVD player for that ultimate audio experience. Some even come with radio tuners and alarm clocks. So, wake up to the choices and play on!

By Shalini S. Sharma
With inputs from Janhavi Abhyankar

BOSE

PRICE: Rs 24,637

SPECS: Proprietary acoustic design; patented Waveguide speaker technology; TrueSpace stereo signal processing

OOMPH FACTOR: Sleek, small, system isolates the ipod from harmful vibrations; truly portable

OUCH FACTOR: Sound starts losing quality at high volume levels

LOGITECH PURE Fi ELITE

PRICE: $150 (Rs 7,500)
Not yet launched in India

SPECS: AM/FM tuner, 80 watt audio output, S-video output, 36-23,000 Hz speakers

OOMPH FACTOR: Metal grills on the speakers can be removed; auxiliary input allows other audio devices to be connected

OUCH FACTOR: No alarm clock; video output does not work with latest generation of ipods

stars

TRIBHUWAN SHARMA

BOYNQ

Price: Rs 7,960

Specs: Two speakers of 10 watt output each; 20-20,000 Hz frequency range, S-video output, full spectrum equaliser

Oomph factor: The only dock which comes in pink and white models for women, besides the standard silver and black

Ouch factor: No remote; no provision for battery

iHOME

Price: Rs 7,590

Specs: AM/FM radio; dual alarm clock; sleep timer; equaliser with treble; bass and balance controls

Oomph factor: Compact size, cool looks; coming from the Apple stable, it is the ultimate companion for ipods

Ouch factor: No provision for batteries

SONY LBT DJ2i XROSS FADE

Price: $500 (Rs 25,000)

Not yet launched in India

Specs: 450 watt output; slots for two ipods; CD player, AM/FM radio

Oomph factor: Can mix music from two sources; USB outlet allows one to store the mixed music

Ouch factor: Too bulky, is more suitable for professional DJs than home users

A Promise much
BIGGER
than what any
other
English
Movie
Channel
can make...
Now watch,
20
New Titles
Every Month on
STAR
MOVIES
TM

MUSIC

Beats of fame

THE TABLA, IN NEWS recently for Ustad Zakir Hussain's second Grammy, has had its moments of glory earlier too. This typically Indian percussion instrument is the soul of Indian music without the rhythmic gravitas many a tune would go haywire. Any nascent singer practising the notes of an octave would know disciplining the beats of the tabla can be.

Through centuries of history and innumerable players, many *ustad*s have taken this primarily 'accompanying' instrument to great heights of solo performances. Kishen Maharaj, Kanthe Maharaj, Samta Prasad Misra or Gudai Maharaj, Ustad Ahmed Jan Thirakwa and Ustad Allah Rakha have been some of the illustrious names associated with this twin instrument.

REUTERS

DRUMS-UP: Hussain has taken tabla beyond the confines of India

But one ustad who has taken tabla outside the confines of India is Hussain. Having received his second Grammy on 8 February for his album *Global Drum Project*, Hussain still yearns for the day when a pure Indian classical album will win this award.

The more savvy of Indian musicians have realised the virtues of going global. But Hussain would do a true service to his pet drums, when he wins a Grammy minus any western add-ons.

Shalini S.Sharma

Hot Property: An undated photo of a 1957 Ferrari 250 Testa Rossa. The car is expected to be auctioned for a record $15 million in Marinello, Italy in May.

RI POMBERDA

TRADITION

A twist in taste

THE LAST THING ONE would associate with the Café Coffee Day generation is a *tambaku*-(tobacco) filled *paan*. A Chocolate Fantasy or a brownie replaced the betel leaf long ago, but the ancient mouth-freshener never completely disappeared. And now those who cannot end a meal without some exotica — whether aphrodisiacs or intoxicants wrapped in a leaf — have reason to cheer. The *paan* is back in new avatars — sans tambaku and *zarda*, which are said to be carcinogenic. Spotted at a recent fair near Delhi was, a chocolate *paan*.

Outlets in posh localities such as Yamu's Panchayat in New Delhi's Connaught Place and Shukla Paan Bhandar in Hauz Khas have given a new twist to the leafy tale with a varieties such as strawberry and butter scotch *paan*. While a regular one costs about Rs 3, exotic *paans* can cost as much as Rs 200 per piece.

NEW FLAVOURS: Chocolate *paan* is one of the latest varieties available

Time was when every cultured family would laboriously maintain a *paandan*, and children would be taught the etiquettes of serving paan to elders. Such days may never returns, but there are still some *paan-wallahs* around Delhi who continue to do brisk business and sell these delicacies wrapped in silver foil or *varak*.

Die-hard fans still swear by the traditional varieties though. The flavour and the funk in the modern versions, is their verdict.

Shalini S. Sharma

TRAVEL

Delightful Diu

I UNDERTOOK A RATHER UNCOMFORTABLE JOURNEY from Ahmedabad, travelling nearly 500 km by road to Diu. While the first half was pleasant enough, later poor road conditions almost ruined the experience. The journey, however, was certainly worth it.

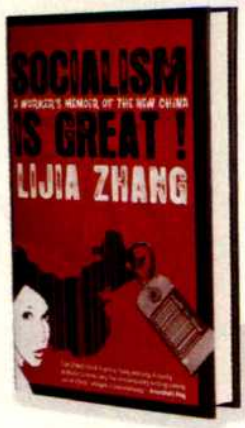
Diu, primarily a fishing town, is part of the Union territory of Daman and Diu, it is where the Battle of Diu was fought in 1509 between the reigning Portugese forces and the joint army of Egypt, the Zamorin of Calicut and the Sultan of Gujarat. India took over the island in 1961.

In this island off the south coast of the Kathiawar peninsula in Gujarat, the most exciting place to visit is the fortress of Diu, an imposing structure projects into the Arabian Sea. This Portuguese fortress was reconstructed by Dom João de Castro after the siege of 1545. It includes a giant light house, an unmistakable landmark amidst its protruding canons.

The Nagoa's horse, a shoe-shaped virgin beach, offers excellent surroundings for various water sports such as para-sailing, water scooter riding and boat sailing. Two other beaches — Ghoghla and Jallandhar — are equally fascinating. A trip to Jallandhar shrine provides a brush with mythology too. A stone-carved face of Jallandhar, a demon killed by Lord Krishna, is the main attraction. Besides, an evening boat cruise from Diu Bunder is an absolute must. A trip to Diu can also be extended to include the famous Somnath temple, Sasan Gir, lion sanctury and the ancient towns of Dwarka and Porbandar.

Sreevalsan Menon

MESMERISING: (From top) Diu Fort; St Thomas Church; Panikotta; Chakratirath beach; Gangeshwar Temple



A Toad Who Saw Beyond The Well

by vishal krishna

SOCIALISM IS GREAT! A WORKER'S MEMOIR OF THE NEW CHINA; BY LIJIA ZHANG; HARPERCOLLINS; PAGES: 283; PRICE: Rs 450

LIJIA ZHANG'S BOOK CAPTURES THE TRANSFORMATION of China from her youth in the 1970s and through her adulthood. Sadly, it is only a memoir of her surroundings and the people close to her as she rarely delves into the hottest debate on China: political change through economic transformation. As a result, we never really find out what the new China really means. After laying the foundation with an outline of a changing China, she leaves the reader clueless about where the Chinese stand in the 21st century.

That said, for a woman whose dream it was to write in English, this book is a triumph of the spirit. As a teenager, Zhang had many dreams and looked forward to going to university and becoming a journalist. But those dreams were crushed by her mother who believed that a girl from a poor family must not have such ambitions. Destined to work in a factory that manufactured missiles for the People's Army of China, Zhang finally manages to defy circumstances.

In the late 1970s, after Mao Zedong's death, the life for peasant workers was miserable. China's education system was crumbling, and very few students made it to universities. The Communist Party enlisted youngsters to work in its factories. Zhang's chances of making it to a university fell further when her family was put on the black list during the 1960s cultural revolution. Her father, a political activist, was considered a right-winger by the establishment and, hence, the author's family was ostracised from the mainstream of society.

LIJIA ZHANG was a worker at a ballistic missile factory in China. She soon grew disillusioned by the oppressive controls she was subjected to, and set out to learn English. She flaunted her intellectual independence by wearing western-style clothes and organising the largest rally by Nanjing workers in support of the Tiananmen Square protest in 1989. Now a journalist, Zhang chronicles the momentous shift in China's economic policy.

Realising the danger of being left out, Zhang's middle-aged mother opted for a voluntary retirement scheme in the factory that allowed her to name her daughter as her successor. Zhang accepted her mother's proposition after a heated debate and became a worker. This part of the book is moving. Although opportunities, won and lost, are all too common in the developing world, Zhang urges readers not give up hope in life.

Succour comes in the form of Deng Xiaoping, China's premier after Mao. Under Deng, the country began to look westward for answers. It opened up its economy and the cultural influence on Zhang was immediate. She became a fan of English classics and Hong Kong cinema. While working at the electric gauge section of the factory, she writes of how foreign cigarettes were the most coveted bribes at work. If one sucked up to the boss, a Marlboro cigarette could be yours for free.

But her factory was filled with treachery. With old-timers expecting obedience, any sedition or questioning of authority could work against a worker. Zhang outlines the failure of the Communist system here. In that dark and large fortress, manned by soldiers with machine guns, that passes itself of as a factory, Zhang finds triumph only in her urge to go away from her hometown Nanjing. She is inspired by an ancient Chinese story of the toad that did not want to look beyond the well. The toad insisted that his friend, the turtle, be part of the well too. But the turtle knows better and remains in the ocean.

Opportunity beckons in the form of the Jiangsu TV University for factory workers. Zhang enrolls in the programme, and from here on her life begins to change. She takes up mechanical engineering — not her area of interest — but she completes the course only because she does not want to be in the factory. In the evenings, she would, with the permission

BROWSING
Karandeep Singh
Managing Director, Sapient India

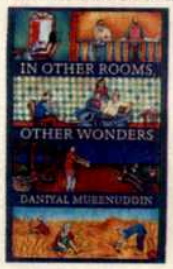
I am currently reading Shift: Inside Nissan's Historic Revival by CARLOS GHOSN. It is interesting how Ghosn, the CEO of Nissan and Renault, could run two culturally different companies simultaneously and still deliver great results. I love to read about people's experiences and learnings as they build world-class brands and businesses. In these uncertain times, I would recommend reading Ram Charan and Larry Bossidy's *Execution*.

of her boss, sit all alone in the factory and devour Chinese books and listen to the songs of the late Taiwanese pop star, Teresa Deng.

Zhang also manages to contribute poetry to *Liming News*, the factory's biweekly. This prods her to take up English at the 'teach-yourself' university, and the rest is history. The book quickly moves into her adventures and escapades with boyfriends. She also becomes a translator of Chinese texts into English, and becomes an active supporter of the democratic movement. The Tiananmen Square massacre in 1989 brings an end to all that when the government cracks down on the student movement. Like her father, Zhang too is questioned by the government.

All said and done, this book could have been so much more than the autobiography of a worker in the backdrop of China's most dramatic political era. For those looking for a more thorough socio-political analysis, this book falls short.

SELECTION 1



A Mansion Of A Book

IN OTHER ROOMS, OTHER WONDERS
BY DANIYAL MUEENUDDIN;
PUBLISHER: RANDOM HOUSE;
PAGES: 247; PRICE: Rs 395

MODERN WRITERS OF AND FROM PAKISTAN — SUCH as Mohsin Hamid, Mohammed Hanif and Nadeem Aslam — seem to be an avant-garde movement in literature, garnering global recognition. It is interesting that Daniyal Mueenudin's title is based on the metaphor of a house enclosing different spaces, each with its own character and charm. This collection of eight stories conveys a unique sense of nationalism, perhaps not consciously designed by the author.

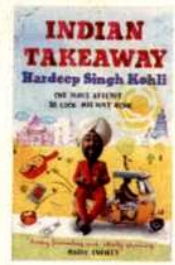
The arrangement of the independent (not completely autonomous) stories follows a loose chronology and an underplayed lineage, which connects characters through the feudal order that contextualises many of the stories. At the vertex is the aged, affluent patriarch K.K. Harouni, whose extended family and retinue of servants and employees feature as the principal players in Mueenuddin's artistic ensemble.

Nawabdin fights nothing less than a heroic battle to reflect in the 'glory of saving' his motorcycle — the symbol of his elevation to a higher stature. While Husna, despite her ancestry, is unable to secure for herself the kind of pride and privileges the Pakistani upper-class is guaranteed by wealth and sophistication. For Rezak, a single turn of events dethrones him from his elevated station and the acquired 'spoils' that go with it; his punishment for having 'dared to reach so high'.

The book may not be overtly political in promoting a particular ideology, but is nevertheless open to political interpretation. For Indian readers, the book reflects scenes and characters easily identifiable with their counterparts here. Mueenuddin has a remarkable ability to draw the reader into the lives of his players and the worlds that unfold with them.

—Alokita Datta

SELECTION 2



One For The Road

HARDEEP SINGH KOHLI IS A second-generation Sikh immigrant in Scotland. A self-confessed foodie who "plans his life around meals", Kohli attributes this obsession to his immigrant identity. "Even the racists liked (Indian) food," he writes in **INDIAN TAKEAWAY** (HarperCollins), noting the impact the cuisine has had on contemporary Britain.

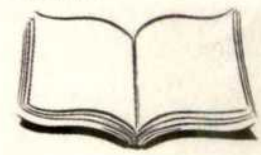
Then, one day, Kohli decides to come to India seeking answers about home and identity. "It seems wherever I go in the world, the expectation of who I might be is never in sync with who I actually am," he writes. In India as a Sardar, Kohli is always seen as just that — a Sardar; never remotely the 'western tourist' that a part of him fancies himself to be. Travelling solo, he hip-hops from Kovalam to Srinagar before landing in 'home-town' Ferozepur in Punjab. Quirky strangers, Delhi belly, moments of recognition, desperation, celebration — he tells it as is.

His idea — to cook a British meal at each stop. Kohli takes his food seriously: what to cook, whom to cook for and where to buy. His observations are true wanderer style — one who is not in a hurry, noticing, absorbing and assimilating. Sometimes he wanders off, recounting stories from childhood trips to India and growing up in Scotland. But food remains the primary focus.

While Kohli's writing has some baffling metaphors, he pleads 'literary license'. Written in the tone of a pal regaling travel stories, it has its moments of self-depreciating, unpretentious Sardar wit bordering on stand-up comedy. Just do not go in expecting any great literature.

—Sumita Thapar

ALERT



CALL ME TED
BY TED TURNER AND BILL BURKE
HACHETTE

Perhaps, the man who changed television news forever by founding CNN in 1980, Ted Turner has his fair share of fans and foes. Whether you are interested in knowing the behind-the-scenes story of how CNN was created, or are keen to find out more about how the AOL-Time Warner merger went from an alliance made in heaven to one of the most berated disasters in the media world. Or just want to know the inside story of power couple Turner and Jane Fonda... *Call Me Ted* has it all.

Inopportune Passivity

THE RESERVE BANK OF INDIA (RBI) FOLLOWS A DELIBERATELY somnolent, mind-numbing style in its reports on the economy. It strings up facts in a certain order; but it avoids interpreting them, and does not infer interconnections beyond what elementary economic theory dictates. It avoids bad news like plague, and clothes it in euphemisms; for instance, it turns every fall into a moderation.

BLOOMBERG

The extreme concentration of power under Indira Gandhi persists till today; it is hazardous when the Prime Minister is not well

This deadpan style of delivering deadwood might have suited the last governor. Y.V. Reddy's view of RBI's function was simple: its job was to combat inflation, no matter what happened to growth. This was the orthodoxy amongst the chiefs of central banks whom he met on his many international junkets; this is what made their reputations in the little club they dwelt in, and that was the club whose loyal and enthusiastic member Reddy strove to be. Luckily for him, the economy performed spectacularly during his tenure; so his penchant for high interest rates and sparse credit did not draw any criticism. And inflation remained above RBI's chosen peak of 5 per cent, so he could argue he was only doing his duty. That is how a mindless monetary policy was passed on as the work of a genius.

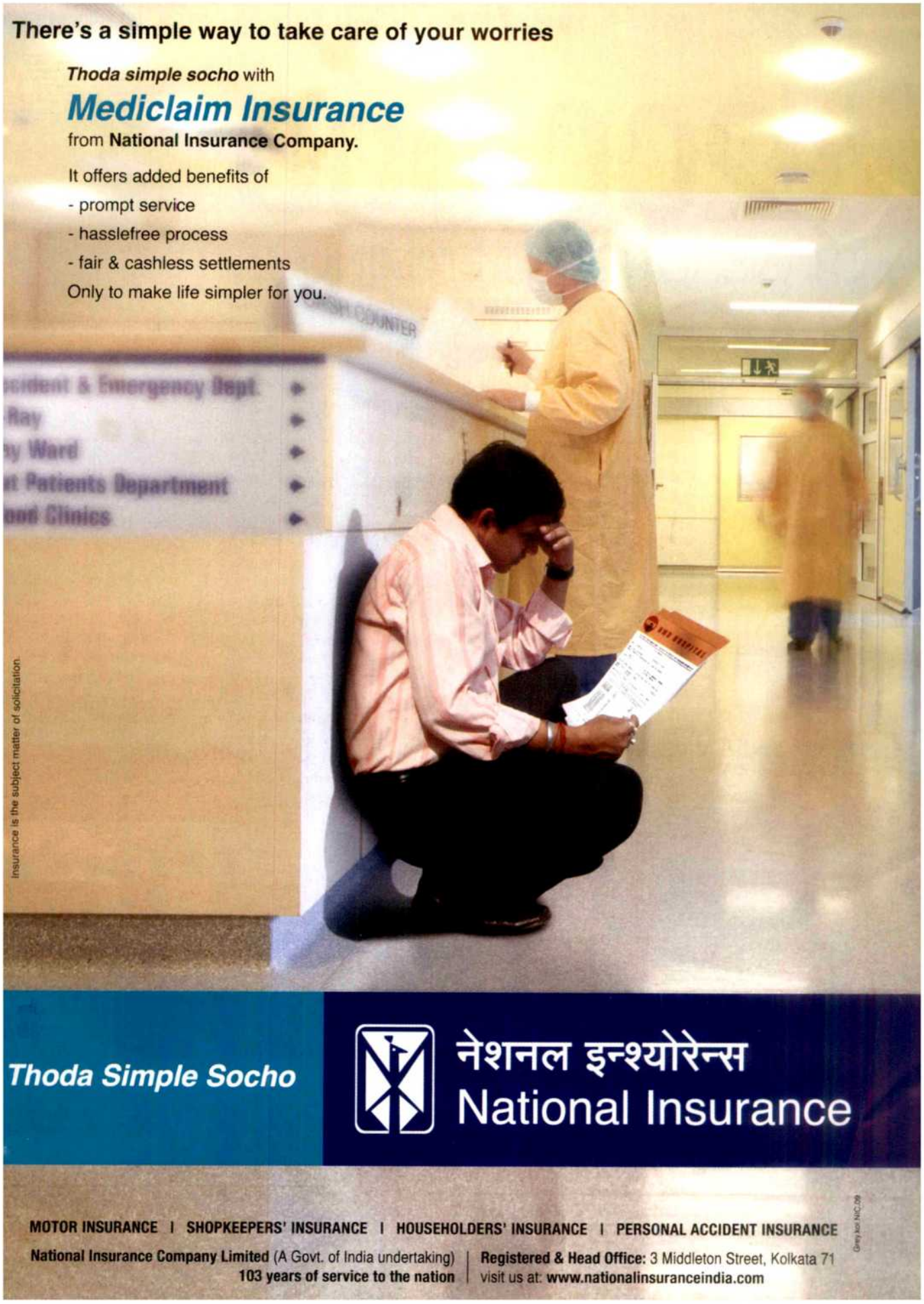
Reddy was also lucky that his term came to an end as the fortunes of the economy ebbed. He could leave to his successor the task of combating the downturn that he had done nothing to avoid or ameliorate. And initially, Yuvvuri Subbarao, his successor, did relax the policy regime as required by the economic conditions: he reduced the cash reserve ratio, and lowered the regulatory RBI interest rates. But he needs to cut interest rates more. Prices are falling. Even if the impact of lower import prices is removed, the short-term rate of inflation in domestic prices is no more than 2-3 per cent.

The governor also needs to do something more than give gentle advice to banks to reduce their lending rates. He needs to initiate action to reduce administered interest rates, such as the rates on savings and fixed deposits and provident funds; and for that he needs to marshal support in the central government. Having worked there until recently, he knows everyone he needs to know, and is eminently qualified for the task of persuasion. But the first one to persuade would be the finance minister, who at the moment happens to be the Prime Minister, who at the moment happens to be recuperating from heart surgery. He is recovering well, but is presumably not quite in a condition to take major decisions.

Nor has he delegated his power to any of his colleagues. There is no deputy prime minister; this lack is carried so far that cabinet meetings are chaired by a number of senior ministers in a variation of musical chairs. Nor is there a minister who would seize the position forcibly. The only one who might have had the gumption to do so, Priyaranjan Das Munshi, is in another hospital bed after the heart attack he suffered last October. There is no doubt S.S. Palanimanickam, minister of state in the finance ministry. He has accumulated considerable experience in his 12-year parliamentary career, in the General Purposes Committee, Regional Railway Users' Consultative Committee and other such bodies. But it is insufficient to take decisions relating to fiscal and monetary policies. So while the Prime Minister recovers, decisionmaking is paralysed; and so is monetary policy, since the new RBI governor is not a man like his predecessor, who would have done his own thing, whether Delhi liked it or not.

This contretemps illustrates a more general point: that the Prime Minister failed to define a clear line of succession, and that the vague state in which he left the exercise of his powers illustrates the fact that power is too concentrated and too little delegated. This causes no furore because the common man does not understand economic policy and is unlikely to complain if it is mishandled or paralysed. But suppose there was another attack from the unfriendly neighbouring country like the one that occurred in November; who will tackle the crisis? The most likely outcome is that a bunch of senior ministers will run around like headless chickens, and that their fruitless activities will be covered up by strident statements from Pranab Mukherjee.

This situation has not arisen suddenly; its roots go back to the extreme centralisation forced on the government by Indira Gandhi a quarter of a century ago. The people voted her out of power for that impertinence, and she came back considerably chastened. But the current hiatus illustrates the fact that the systemic damage she did to the government has never been repaired.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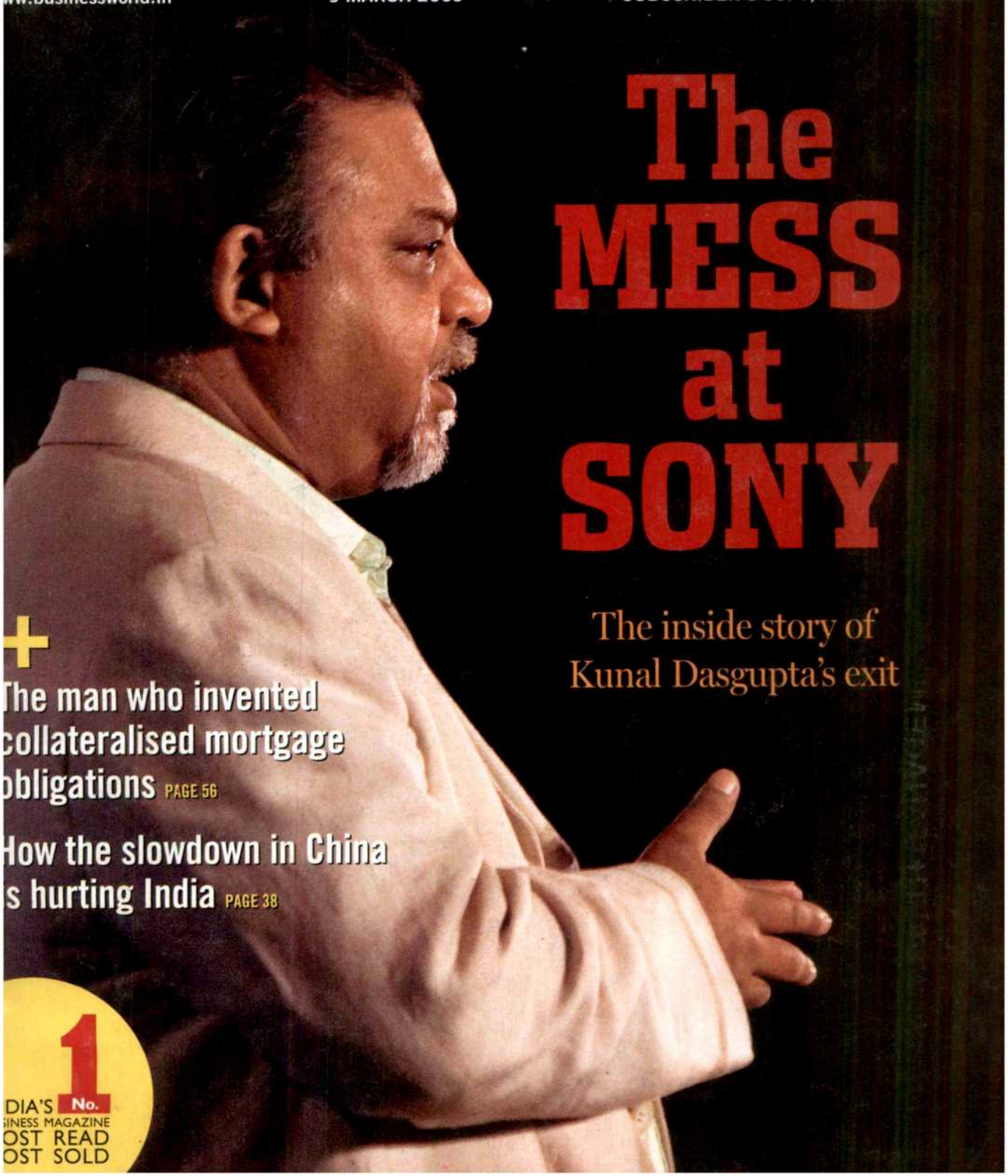

The MESS at SONY

The inside story of Kunal Dasgupta's exit

+

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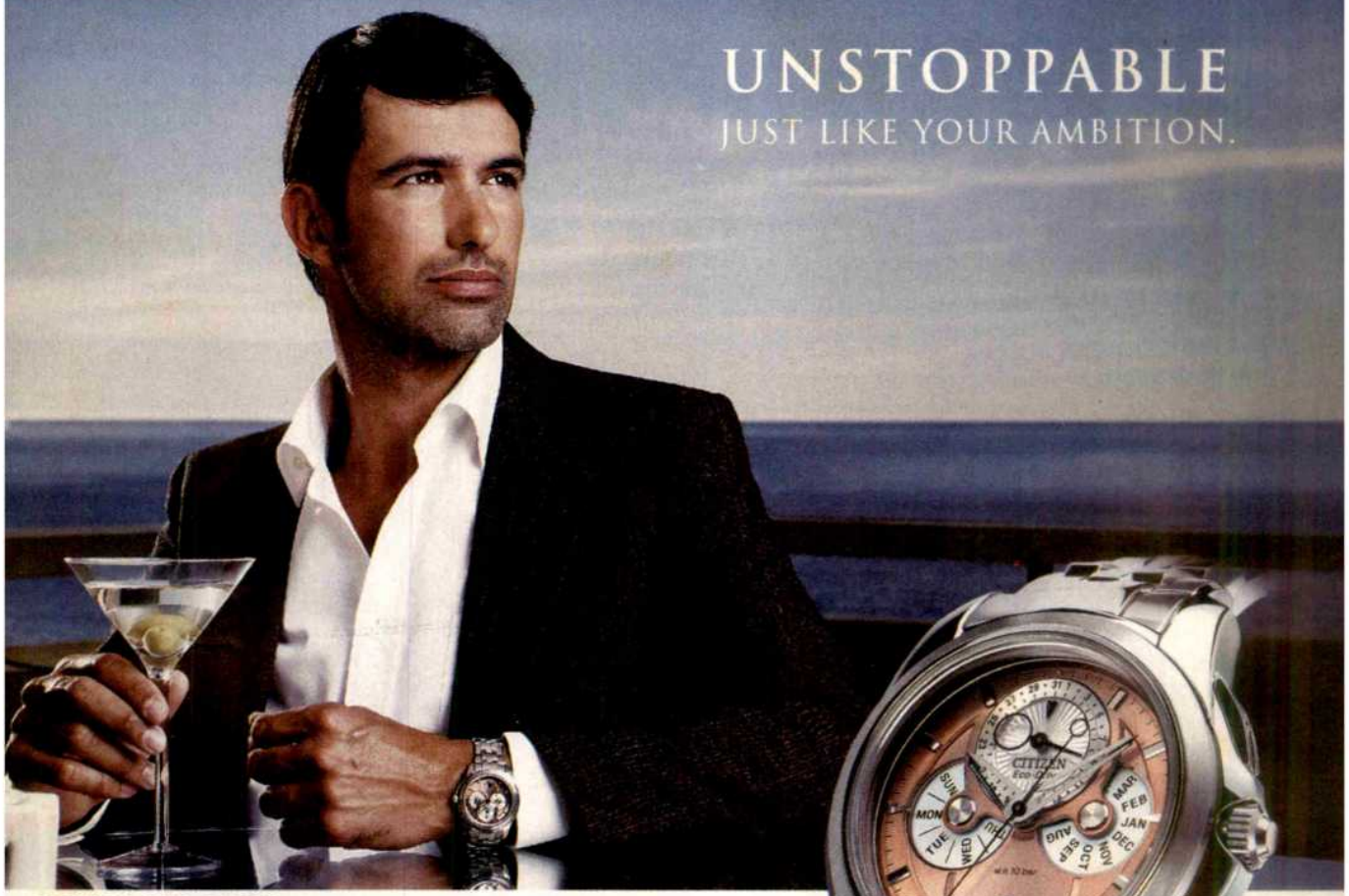

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Misplaced Incentive

BARELY A WEEK AFTER the budget, the government announced the third stimulus package. This one saw excise duties being pared and service taxes being trimmed. The government's logic is that these will help companies cut costs. The service tax cut — from 12 per cent to 10 per cent — will directly help consumers of a whole range of services. The excise duty cuts — which impact manufacturing — are also expected to be passed on to consumers.

The cuts have obviously cheered industry, though there are a few who wished the cuts were deeper. But will the tax cuts actually remedy, even partially, the problems the Indian economy is facing currently?

The government has taken a Rs 30,000-crore bet that it will — that is the amount it is willing to forego in order to spur the economy. Call me a pessimist, but I very much doubt whether the latest stimulus package is going to do much beyond making a bigger dent in the government's finances.

Much of the current problems the Indian economy is grappling with have to do with a sudden drop in demand, both domestically as well as globally, for Indian goods and services. Companies and consumers of these goods and services are buying less, and often deferring fresh purchases. They are buying less, because in some cases they have less money to spend. Companies across the board are short of cash, and despite the intervention of central banks all over the world, they are finding it difficult to raise fresh cash at cheap rates. Even the companies that still have cash are hoarding it, because they are not sure how bad things will get with the economy in the short and medium term.

Much of that applies to individual consumers as well. Some have seen a sudden drop in income because they have been laid off. The others are uncertain of the future and sitting on their savings. And still others are simply feeling poorer because their investments have come down in value.

In essence, a lot of the current problems have to do with the poor sentiment about the overall economy. And cutting prices of goods and services through price cuts will do nothing to spur sentiment. You can make something cheaper, but you still cannot force buyers to pick it up, if the latter are simply jittery about spending money.

Prosenjit Datta

prosenjit datta, editor

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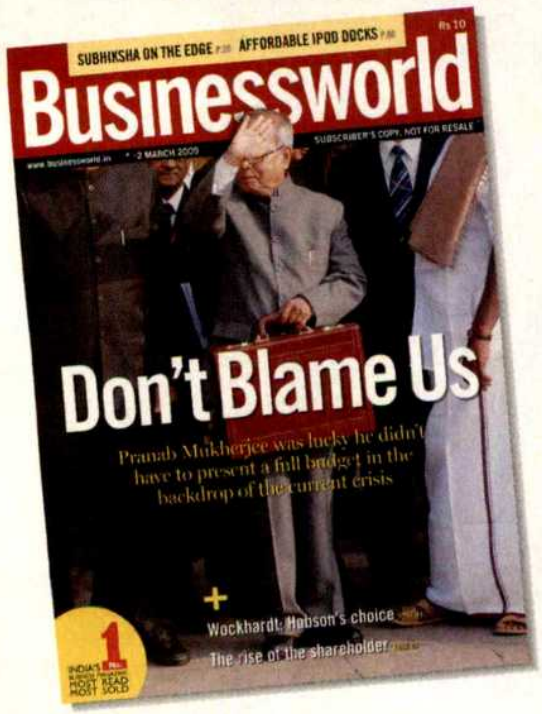

A Depressing Budget

The interim budget announced last week revealed a shocking rise in fiscal deficit ('Fiscal Burden', *BW*, 2 March 2009). Even though the Indian banking sector was relatively immune to the global meltdown due to rigid Reserve Bank of India (RBI) policies, the recession has already hit exports and sectors such as automobile. It is uncertain whether such a budget will yield any political dividends, or stave off recession. A lot depends on how the RBI handles the supply of money.

Vineet Bhalla, Warrangal

India's fiscal deficit figures are truly worrisome. Turning the economy around will be a huge challenge for the next government.

Srinivasan Umashankar, Nagpur

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State Of Affairs

As a Tamilian, I was happy to see Tamil Nadu ranked No. 2 in competitiveness ('State Of The States' *BW*, 23 February 2009). But some of the statements made are outright absurd. For instance, that the state is 'well-endowed' with mineral deposits and that agriculture is a key contributor to its GDP. Excepting lignite, the state does not have many other mineral deposits. As for agriculture, its contribution to the state's GDP has fallen from 25 per cent in 1993-94 to 13.3 per cent in 2005-06. Unlike Gujarat or neighbouring Andhra Pradesh which record double-digit growth in agriculture, Tamil Nadu has a little over 1 per cent — far below the national average.

S. Vishwanathan, via e-mail

BW has used pictures of chief ministers of all the states profiled except for

Cover Story profile
For A Greener Valley

Maharashtra. This reflects the bias of the national media against the state.

Ranjit Kulkarni, Thane

Healthier Options

As out-of-home breakfast consumption in metro cities is growing ('A Delicious Proposition' *BW*, 2 March 2009), McDonald's should add fruits and vegetable juice instead of serving soft drink, to make the first meal of the day a healthier option.

Suman Kumar, Spencer's Retail, via e-mail

A New Satyam

Time will tell as to what kind of surgeries Subhiksha may have to undergo in the coming months ('Subhiksha's Last Chance', *BW*, 2 March 2009) . The entire episode has opened another can of worms like Satyam. Subhiksha has 2,000 stores, but even basic items are not available in the outlets. It had become obvious that the business will go bust.

C.N. Sankaran Namboodiri, Bangalore

Corrigendum

In 'Companies Eyeing Satyam' (*BW*, 16 February 2009), Subbu Subramaniam has been referred to as Siddhu Subramaniam. He is a partner at Baring Private Equity Partners and not Barings Private Equity Partners, as mentioned in the article. The errors are regretted.

Letters may have been edited for brevity.

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BOWLED OUT: Kunal Dasgupta left Sony after 14 years as CEO

TRIBHUWAN SHARMA

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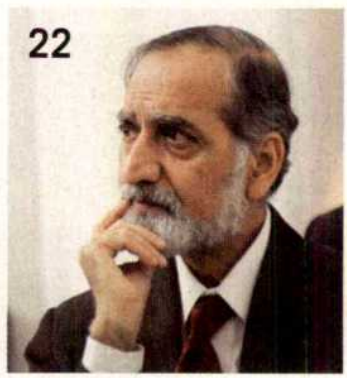

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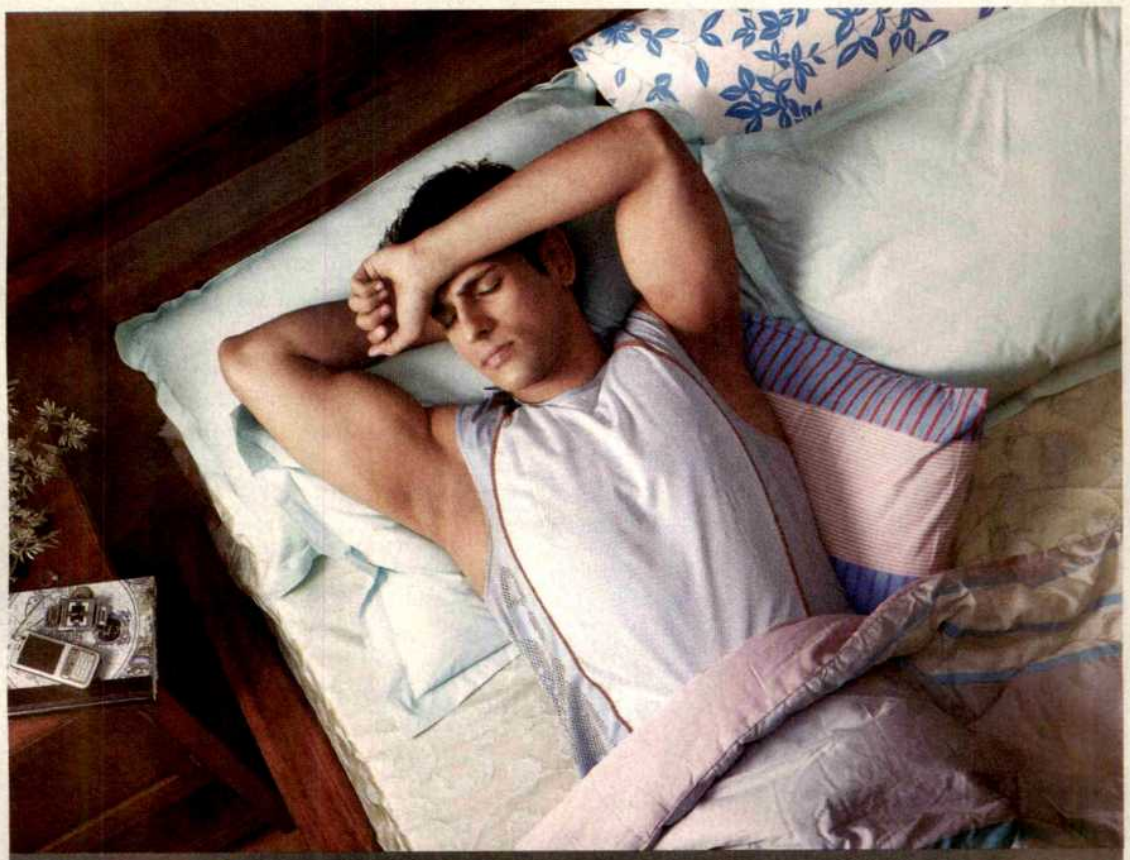

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Methodology:
Star Fund House of the Year - Equity (ICRA): UTI Mutual Fund has been awarded the "STAR FUND HOUSE OF THE YEAR" by ICRA Mutual Fund Awards 2009 in the Equity Category. The rank indicates 'Best Performance' in the 'Equity Category' for one year period ending December 31, 2008. Out of 24 Mutual fund houses, UTI Mutual Fund has been ranked as the "Star Fund House of the Year" in the equity category. Methodology: ICRA Mutual Fund (MF) Awards are based on the proprietary ranking methodology devised jointly by ICRA and ICRA Online Ltd. The ranking process considers only growth oriented open ended equity and debt schemes apart from liquid schemes where Institutional plans are also considered. The basic eligibility criteria is based on the Average category AUM, and stringent disclosure norms for portfolio and NAV over one and three year periods. The ranking methodology dynamically factors in the actual investment pattern rather than on the scheme's stated objectives. The scoring model for the final ranking, factors norms for Risk-adjusted returns, Average Maturity, AUM size, Liquidity analysis, Portfolio turnover ratio, Concentration analysis. The rankings are conducted for 26 different categories over the one-year and three-year horizon.
Best Debt Fund House: Outlook Money NDTV Profit: Award Methodology: This category is subdivided into three: Best Fund House, Best Equity Fund House and Best Debt Fund House. Two fund houses will be selected in each category: a winner and a runner-up. Short-listing criteria for fund houses/AMCs. • AUM of Rs 10,000 crore as on 30 June 2008. • At least 40 per cent of the equity funds (or debt funds if the funds chose to focus only on debt funds) must conform to the tenure and minimum investment eligibility criteria of Outlook Money risk-return rankings. Alternately, the fund house must have been ranked the previous year. •Minimum track record of three years for all scheme types except liquid, short-term and long-term floating funds for which the evaluation period was six months. • Rolling-Returns were considered across categories • Returns are adjusted for risk (downside volatility/Portfolio concentration/strategy/credit quality and average maturity). • Sector schemes are not considered. • MutualFundsIndia.com database is used for this analysis. Following this, short-listed fund houses/AMCs were mailed questionnaires to gather specific information, both quantitative and qualitative. Only fund houses/AMCs that reverted with filled questionnaires competed in these awards. If any question was unanswered, the fund house/AMC was given the lowest mark against that evaluation parameter. The questionnaires sent to the fund houses/AMCs were based on an evaluation process that considered the following parameters: • Quantitative. How has the fund house/AMC performed vis-a-vis the category average? How many schemes are in the top quartile? • Qualitative: The facilities that the fund house/AMC offers and the satisfaction level of investors. Once the responses came in, they were collated. Final winners were arrived at after assigning weights, as ratified by the jury. • Number of AMC/Mutual funds in the category for Debt Fund House of the Year: 17.
Loyalty Awards Instituted by KamiKaze: The Award winners at the 2nd Loyalty Awards were decided by a combination of Consumer Research undertaken in 6 cities of India by A C Nielsen & from Nominations received. The Loyalty Awards were decided by a Jury vwho on basis of the above 2 findings decided the final Award Winners in each category. Around 5000 consumers were interviewed in each city by A C Nielsen. These consumers were random picked and approached with a ready made questionnaire. There were 5 nominees in the Mutual Fund Sector and UTI Mutual Fund obtained the top rank.
Golden Peacock Innovative Product / Service Award: Instituted by the 'Institute of Directors' The 'Golden Peacock Innovative Product/ Services Award' named after India's national bird "The Peacock" will be awarded every year to the most innovative product as determined by the satisfaction of the customers long term unexpressed and unarticulated needs and aspirations in a most cost effective manner which is consistent with the society's goal of sustainable development. We believe that innovation is the only way to provide environmentally friendly products and services that will help us achieve "factor 10" improvements that are necessary to maintain the same quality of life in the new century. It has therefore instituted a special award called 'Golden Peacock Innovative Product/ Service Award'. This award will be given to a product or service, which shows a quantum jump in the exploitation of current technology to achieve maximum customer satisfaction at minimum cost. While calling for more sustainable pattern of production and consumption, it motivates to carry on their pursuit of excellence. The Award is designed to encourage systemic innovation in organization to make products and services required in the new century.
UTI-Equity Fund: Nature of Scheme: An open-end growth oriented equity scheme. **Investment objective:** This Scheme primarily aims at securing for the unit holders capital appreciation by investing the funds of the scheme in equity shares and convertible and non-convertible bonds/ debentures of companies with good growth prospects and money market instruments.
Load Structure: Entry Load: 2.25% for < Rs. 2 crores; NIL for >= Rs. 2 crores. **Exit Load:** for <= 180 days; 1 % in respect of each purchase / switch in of units for < Rs. 2 crores; 0.50% in respect of each purchase / switch in of units for >= Rs. 2 crores.
Risk Factors: All investment in mutual funds and securities are subject to market risk and the NAV of the funds may go up or down depending upon the factors and forces affecting the securities markets. There can be no assurance that the scheme objectives will be achieved. Past performance of the sponsors/Mutual Fund/Scheme(s)/AMC is not necessarily indicative of future results. The name of the schemes of UTI Mutual Fund does not in any manner indicate the quality of the scheme; its future prospects and returns. There may be instances where no income distribution could be made. Realization of all the assurances and promises made, if any, are subject to the laws of the land as they exist at any relevant point of time. The schemes are subjected to risk relating to Credit, Interest Rates, Illiquidity, Judgement Error, Interest Rate, Swaps and Forward Rate Agreements. **General Services:** Daily NAV, Sale Price / Redemption Price available for Sale / Redemption. **Registered Office:** UTI Tower, 'Gn' Block, Bandra Kurla Complex, Bandra (E), Mumbai - 400051. Tel: 66786666. **Statutory Details:** UTI Mutual Fund has been set up as a Trust under the Indian Trust Act, 1882. **Sponsors:** State Bank of India, Punjab National Bank, Bank of Baroda and Life Insurance Corporation of India (liability of sponsors limited to Rs. 10,000/-). **Investment Manager:** UTI Asset Management Co. Ltd. (Incorporated under the Companies Act, 1956). **Trustee:** UTI Trustee Co. (P) Ltd. (Incorporated under the Companies Act, 1956). Please contact the nearest UTI Mutual Fund Financial Centre, Chief Representative or AMFI Certified UTI Agent for copy of Key Information Memorandum cum Application Form and Offer Documents / Scheme Information Documents. **Please read Offer Document / Scheme Information Document carefully before investing.** 1495.2009

AUTO LOANS

A Calculated Risk

State Bank's low-rate loans may seem attractive, but they heighten default risk

BLOOMBERG

MISLEADING FACADE: The repayment burden will rise sharply after the first year

STATE BANK OF INDIA'S (SBI) sudden aggression in retail lending may have caught the attention of customers, but analysts wonder if this 'clever packaging' is enough to boost business and stimulate housing demand.

Last week, SBI launched the Happy-Home Loan scheme with a fixed interest rate of 8 per cent for one year on loans sanctioned on or after 1 February 2009 and partially disbursed before 30 April 2009. But after the first year, floating rates will be applicable. If current conditions prevail, the rate will reset to a floating rate of 10.25 per cent for the next 19 years for a 20-year loan.

SBI also applied the same idea to auto loans, which it cut to 10 per cent from 11.50 per cent. Competitor HDFC Bank's best rate is 12.25-12.75 per cent. But the offer does not extend to existing customers who may want to refinance their mortgages.

Will it work? Anuj Puri, chairman and country head, Jones Lang LaSalle Meghraj, rules out any major changes. "Home buying is not dictated by interest rate dynamics alone, but a good deal too," he says.

Others say lower rates only help builders who can hold on to unjustifiably high prices.

But a bigger question looms: will this lead to more delinquencies for SBI? As the slowdown worsens, defaults will increase due to job losses and salary cuts.

Rating agency Crisil says gross non-performing assets in the housing loan segment are already rising.

In auto financing, many private lenders exited due to high delinquencies. Will SBI's marketing end up the same way?

Sreevalsan Menon

¥3 trillion ($31 billion). The 'erroneous' order placed by UBS Securities on Tokyo Stock Exchange

QUOTE OF THE WEEK **"[If elected to power] our government will pursue a muscular and farsighted foreign policy."**

— L.K. Advani, BJP's Prime Ministerial Candidate

CHINA-US RELATIONS

De-Coupling

The notion that China and the US need each other is set to change

THE CLOSE SYMBIOTIC relationship between China's trade surpluses (invested in US Treasury securities) and the US fiscal deficit is likely to undergo a loosening. Chinese trade surpluses have declined sharply, and the government is focused on boosting the domestic economy instead.

From being in fiscal balance, China will have a fiscal deficit of 3 per cent of GDP due to its economic stimulus package.

China's trade surplus of about $300 billion will fall as the US stops buying Chinese goods. Add to this declining portfolio and foreign direct investment — blame the government's halted appreciation of the currency and excess production capacity respectively — and foreign exchange reserves are likely to fall from the present $1.9 trillion.

Yes, lower imports means that the US trade deficit will shrink. But the fiscal deficit will widen, because of the government's need to recapitalise banks and get the financial system back in working order.

Chinese investment in US government bonds and federal agency paper — roughly two thirds of its trade surplus with the US — is likely to fall at the precise time when the US deficit is set to balloon from its present $600 billion to $1 trillion per year in the next two years.

The US and China may not be as co-dependent anymore.

Srikanth Srinivas

OLD TIES: US Secretary of State Hillary Clinton recently said China should keep buying US Treasury bonds AP

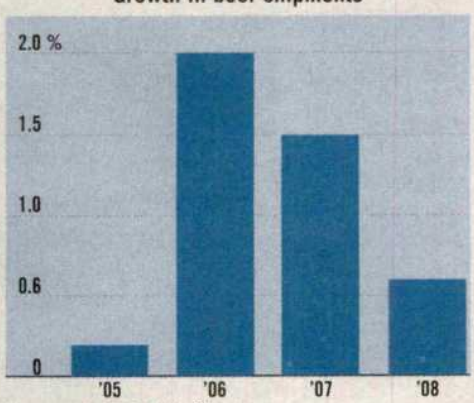
Global NEWS

Israel's presumptive Prime Minister **Benjamin Netanyahu**, leader of Likud party, has suffered a blow in his efforts to form a broad coalition government. The centrist Kadima party and the Labour have rejected Netanyahu's invitation to join the government. Netanyahu has about a month to put together a coalition.

BOTTOMS UP

As US state lawmakers consider raising beer and spirit taxes to narrow budget deficits, alcohol companies facing slowing demand are not prepared to swallow the costs.

Growth in beer shipments



Figures are estimates for the top 20 brands.
Source: Beer Marketer's Insights

Bloomberg

DEFENCE

TO BE OR NOT TO BE?

THAT IS THE QUESTION INDIA'S private companies investing in defence production are asking. The defence business heads in listed companies are under pressure from their boards to justify their pursuit of the defence El Dorado — India could spend up to $100 billion (Rs 4,99,178 crore) on buying defence items over the next decade.

Although the government opened defence items' production to the private sector early this decade, the orders have been few and far between. The last notable order was for mobile multiple-rocket launcher Pinaka on Tata Power and Larsen & Toubro (L&T) worth Rs 200 crore. The private investors' biggest grievance is that they neither get to know about the forces' future requirements nor are they allowed to bid for big orders against the defence public sector companies and the foreign suppliers.

The least the ministry of defence could do is to have a secretary dedicated to procurement from private companies.

Feroz Ahmed

Private interest

Kumar Mangalam Birla-owned Aditya Birla Retail is targeting a revenue of 10-15 per cent from its private label business in the next two to three years, and plans to set up 250 supermarket stores by March 2010. "Private labels business contributes around 3 per cent to our revenue," says Thomas Varghese, CEO of Aditya Birla Retail.

BLOOMBERG

Liability issues

Hyderabad-based Jubilant Organosys has bought back foreign currency convertible bonds worth $48.3 million. With this, Jubilant has reduced its liabilities by $58.92 million, the pharmaceutical company says in a statement to the Bombay Stock Exchange.

Off-market deal

Mumbai-based Tata Power has picked up 4.5 million shares representing 1.58 per cent stake in Tata Communications (formerly known as VSNL) through an off-market transaction. With this, Tata Power's stake in the telecom company stands at 2.48 per cent.

BLOOMBERG

Focus on India

Japanese electronics major Panasonic plans to invest $300 million over the next three years to expand the company's manufacturing capacity as well as marketing and distribution network. The move assumes significance as it comes at a time when Panasonic has shut down 27 of its manufacturing plants spread across the world.

On board

Low-cost carrier SpiceJet has announced the appointment of investor Wilbur Ross as a director on its board. The appointment, however, is pending clearances from the government. Ross's investment firm WL Ross & Co., along with Goldman Sachs, had committed an investment of Rs 421 crore in SpiceJet in August 2008.

Taking to newer heights

The National Aviation Company of India has tied up with Singapore Air Terminal Services for a joint venture to undertake ground and cargo handling at various airports in India. In the first phase, the joint venture will invest Rs 172 crore in the Bangalore airport and Rs 80 crore in the Hyderabad airport.

BW-THOMSON REUTERS M&A DEAL TRACKER

$22.94 billion The value of the Asian M&A market, which witnessed 860 deals as of 23 February 2009. China was the largest market in the region with 230 deals worth $5.39 billion.

Top Indian deals

TARGET	NATION	ACQUIRER	NATION	DEAL SIZE ($M)
Orissa Sponge Iron & Steel	India	Bhushan Power & Steel	India	32.20
IRB Surat Dahisar Tollway	India	Deutsche Bank	Germany	11.20
Del Monte India	India*	Natures First India	India	1.00
Bhagyashree Leasing	India	Undisclosed investor	India	0.50
Niryat Sam Apparels (India)	India	Undisclosed investor	India	0.20
Joy Reality	India	Bhavin Soni	India	0.10
Avinash Drugs	India	Aarti Industries	India	NA
Cadila Healthcare	India	Zydus Hosp & Med Research	India	NA
PPI Blowpack	India	Graham Packaging Co.	US	NA
Kinetic Escalator & Elevator	India	Hyundai Elevator Co.	South Korea	NA

Figures for 8-21 February 2009 *Ultimate parent nation is the Philippines

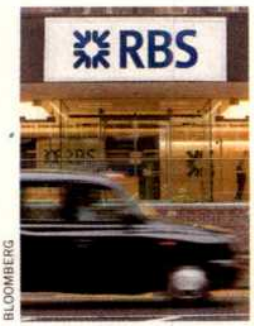
Figures for 1 January-23 February 2009

When the goings get tough...

3i India Infrastructure Fund, the infrastructure arm of the London-based private equity firm 3i Group, has picked up a minority stake in Krishnapatnam Port Company for $161 million. The deal is important because it shows the UK's oldest private equity group has not completely frozen fresh investments, even as it fights to cut its £2.1-billion ($3.06 billion or Rs 15,252.50 crore) debt burden.

Divide and rule

Royal Bank of Scotland Group plans to hive off its toxic assets into a separate company. The bifurcation is in anticipation of the UK government's rescue package for banks that will insure British banks' toxic assets against any future losses. RBS is expected to place £250 billion ($363 billion or Rs 18,07,184 crore) of toxic assets in the scheme.



BLOOMBERG

Slowdown effect

Three state-owned oil manufacturing companies (OMCs), Indian Oil, Hindustan Petroleum and Bharat Petroleum, have dropped plans to build ethanol plants in Brazil. "In view of economic slowdown and resource crunch, OMCs are not contemplating any investment in Brazil to set up an ethanol project at present," says Petroleum Minister Murli Deora.

Banking on higher automation

Toyota Kirloskar Motor, the joint venture between Toyota Motor Corporation and Kirloskar Group, plans to have more automation in its second plant near Bangalore. "Given the higher volume that the new factory will have, plans to have a higher level of automation is under study," says Shekar Viswanathan, deputy managing director (commercial) of Toyota Kirloskar Motor.

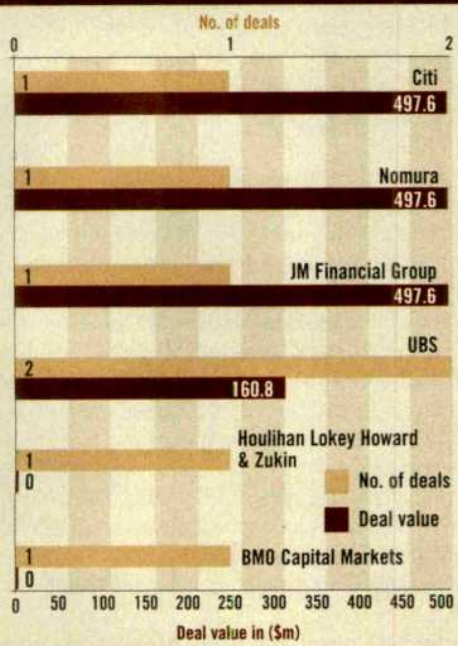
SATHEESH NAIR

BLOOMBERG

Honda rejigs its top management

Honda Motor Co. has appointed Takanobu Ito as its new President and CEO. Ito has already been the company's senior managing director. Ito replaces Takeo Fukui, who will step down in June but will stay in the board as an advisor. A change in the top management was expected as the Japanese automaker recently forecast its first quarterly loss in 15 years.

India financial advisory rankings



Figures for 1 January-23 February 2009

Top Asian deals

TARGET	TARGET NATION	ACQUIRER	ACQUIRER NATION	DEAL SIZE ($M)
Hamersley Iron	Australia	Chinalco	China	5,150.13
Rio Tinto Ltd	Australia	Chinalco	China	4,100.00
Rio Tinto Escondida	Chile	Chinalco	China	3,388.00
Hutchison Au-Telecommun Bus	Australia	Vodafone Group-Au Telecom Bus	Australia	3,197.26
Rio Tinto Plc	UK	Chinalco	China	3,100.00
OZ Minerals	Australia	China Minmetals Nonferrous Met	China	2,094.45
Rio Tinto Plc-Weipa Bauxite	Australia	Chinalco	China	1,200.00
Shining Prospect	Singapore	Chinalco	China	1,021.29
Kennecott Utah Copper Co.	US	Chinalco	China	700.00
Rio Tinto Ltd-Yarwun Aluminium	Australia	Chinalco	China	500.00

Figures for 8-21 February 2009

Figures are based on ultimate parentage, meaning that an M&A deal carried out by a unit abroad will still be counted as that of the home country, provided the overseas unit is majority owned by the parent. Deal value is the total value of the consideration paid by the acquirer, excluding fees and expenses but including liabilities assumed. If the acquirer is buying 100 per cent of a non-financial company from a currently-held percentage of less than 50 per cent, deal value is calculated by subtracting the value of any liabilities assumed by the acquirer and adding the target's net debt. US dollar equivalents are computed using the exchange rate at the time of the deal's announced date. League tables are credited proportionately among financial advisors involved in a deal whether the firm participated as target or acquirer financial advisor.

Log on to www.businessworld.in for the complete list

Untouchable India

by ashok v. desai

EVER SINCE THE CURRENT CRISIS BEGAN IN THE West, official-type Indians have been trumpeting the view that India was special and would not be affected. According to them, Indian authorities were extraordinarily wise and had saved India from the temptations that led to the fall of the West — especially freedom of capital movements. They also like to boast about the superior Indian financial regulation — the numerous regulatory authorities, the volume of regulations and notifications they turned out and the number of things they prohibited or restricted. The institutions killed off many innovations such as derivatives before they could damage the economy. When ICICI Bank got into trouble and the financial system shook, they blamed it on the bank's external adventurism. Nothing could shake their faith in India's special invincibility and their own wisdom.

McKinsey fires in all directions without bothering to understand the enemy or the terrain

Now at last we have an alternative view, taken by McKinsey ('Crisis or Opportunity? Implications of the Global Crisis for India'), that India is vulnerable on a number of counts. Global slowdown has reduced exports of textiles, leather, etc.; they will continue to be affected by worsening global conditions. In real estate, steel, cement, automobiles, etc., domestic supply exceeds demand, so they will suffer erosion of margins, extending for many firms into losses. These two types of industries together account for an astonishing 57 per cent of GDP. Infrastructure sectors, accounting for another quarter of GDP, have enough demand at home, but being unprofitable, would not be able to attract funds. These sectors together account for over three-quarters of national income.

If these figures are correct, they make India as vulnerable as any other economy. McKinsey also notes that the just-past boom was characterised by a big rise in the investment ratio, and must be followed by a fall, which would affect firms that produce investment goods — namely engineering and construction firms. There would be a shortage of funds for investment. It expects a fall in foreign exchange reserves as foreign capital inflows fall, but not enough to be a cause for worry.

But in the religion of management, vulnerability is an invitation to overcome it, and problems are instantaneously turned into challenges. McKinsey sees great opportunities for India, and has ideas on what the government and companies have to do to triumph.

There is much that is worth considering in McKinsey's proposals. But any consultant that wants potential clients to listen to it is obliged to be uncritical of them and to accept their foibles. Thus, McKinsey has implicitly given up on the possibility of building a long-term debt market in India, and wants the government to use its banks to fund infrastructure. To persuade them to do so, it wants them to be given various concessions — for instance, not applying prudential norms like cash reserve ratio and statutory liquidity ratio to infrastructure loans, and letting banks sell infrastructure bonds to one another. The resulting liquidity mismatch does not worry McKinsey. Similarly, banks would need more equity to lend more, but McKinsey thinks, rather mysteriously, that the need for equity can be avoided by raising the limit on single loans by banks. It also wants a relaxation in prudential norms of insurance companies and pension funds; presumably, if they lost money as a result, the government is always there to make it up.

McKinsey wants a rating system for small enterprises (Indians, always fond of long names, prefer to call them micro, small and medium enterprises, and shorten it to MSMEs). Rating agencies are paid by firms that want to be rated — in the hope that a good rating would get them cheaper loans. Indian banks do not consult rating agencies — they have superior advisers such as politicians in power — so Indian firms have no interest in getting rated. The root problem, which McKinsey would not identify, is lack of competition in the lending market; without which no one will attach value to information about quality of borrowers.

McKinsey also wants a stock exchange for small enterprises. It lists TSX Ventures in Toronto, with 2,244 companies, as a model. Bombay Stock Exchange has three times as many small companies listed. Listing was forced on them by banks; and after banks ceased to do so, hardly any have been listed. Small enterprises do not depend on equity markets in any economy. And the Indian equity market is dead for policy-related reasons, so one more exchange will not increase capital supply. McKinsey has clever ideas, but without a grasp of the Indian economy, they go off unpredictably like grapeshot.

The author is Consultant Editor of *Businessworld*.
ashok.desai@gmail.com

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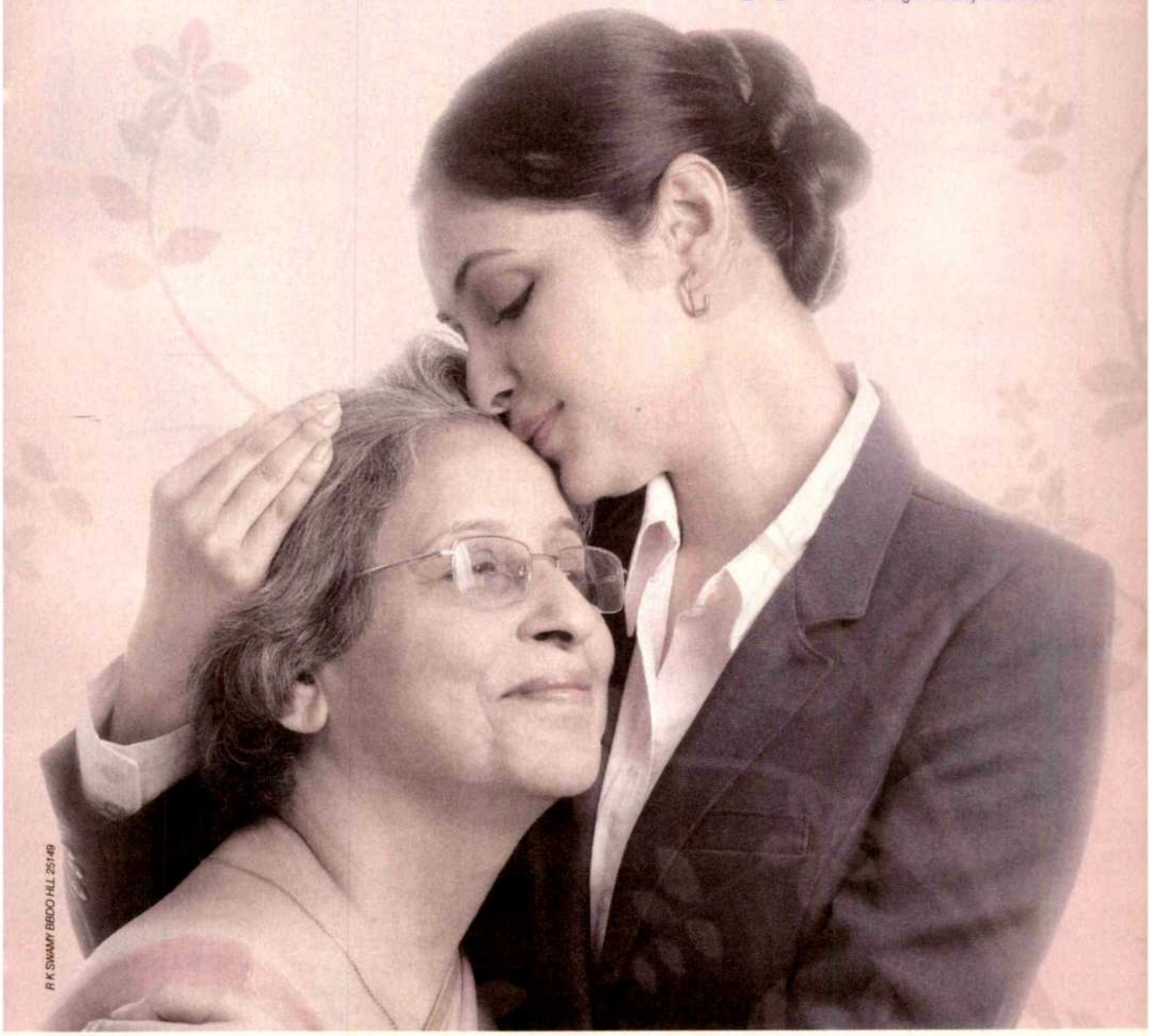


R K SWAMY BBDO HLL 25149

Contraceptives | Surgical and Hospital Products & Equipments | Medical Infrastructure Projects | Women's Health Care | Diagnostic Services | Vaccines
Rapid Test Kits | Natural Health Care Products | Procurement and Consultancy Services | Social and Health Care Franchising
Condom Promotion and AIDS Prevention Programs | Hospitals and Mobile Clinics | Public Health Program Implementation and Technical Support for NGO's

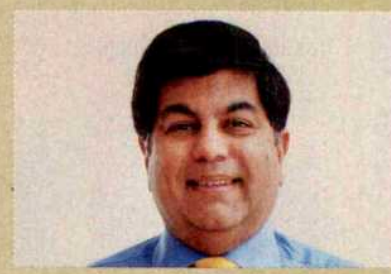
Quick Take

Should the Reserve Bank of India cut rates before its next policy review in April?

We asked... Ashwin Agarwal, Akash Ganga Investments; Ajay Bimbhet, MD, Royal Sundaram Alliance Insurance; Yudhajit Datta, MD, Mindscape Maestros; Shrenik Ghodawat, MD, Ghodawat Energy; Akash D. Jyoti, head, corporate & infra. ratings, Crisil; Jiban K. Mukhopadhyay, former chief economic advisor, Tata Group; J. Shanmugasundaram, projects manager, Next Step Digital; Vijay S. Sharma, MD, One97 Communications; Saurabh Srivastava, chairman, Indian Angel Network; Ajay Trehan, MD & CEO, AuthBridge; Sanjay Tripathi, head, product planning, Yamaha; Murthy Veeraghanta, chairman, Vsoft

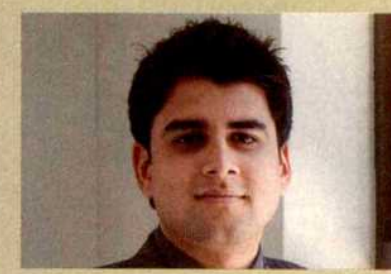
"The RBI should cut interest rates. The growth has fallen since the interest rates were hiked."

Ajay Trehan, MD and CEO, AuthBridge



"Yes. It will boost the investment projects of firms and provide a fillip to the real estate sector."

Ajay Bimbhet, MD, Royal Sundaram Alliance Insurance Company



"Yes. The consumers should be supported with low interest rates. It will mobilise the economy."

Shrenik Ghodawat, MD, Ghodawat Energy

Yes 75%

YES BECAUSE: There is a dire need to spur industrial growth, which turned negative for the second time in the current fiscal in December. Demand needs to be stimulated and that has not happened yet. The Reserve Bank of India (RBI) had increased interest rates to control inflation and the target has been achieved. For consumers, it is the right time to buy and that should be supported with adequate finance at best possible interest rates. The growth has fallen since the interest rates were increased and the recent rate cuts have not made a significant impact either. On the inflation front, there is no danger since demand of goods and services are at an all-time low and there is no expectation of good news emanating from the US in the near future either.

No 5%

NO BECAUSE: The financial system is flush with liquidity — RBI has released enough money in the recent past. The problems lie with the commercial banks, which are still wary of lending to companies and consumers. As a result, there has been no significant rise in demand. In such a situation, further rate cuts are not likely to make much impact. Lowering rates when credit starts to flow may be a more effective approach. The central bank should convince the banks to inject money into the economy at the micro level by lowering prime lending rates. The government needs to drive domestic demand through increased infrastructure spending rather than depending on RBI to solve all liquidity problems. And with the general election round the corner, RBI should not take any hasty steps.

Maybe 20%

MAYBE BECAUSE: Access to affordable cash is still a problem for India Inc. Though RBI has released thousands of crores into the system by a series of rate cuts and other tools, there has been no tangible effect so far. Rate cuts are necessary to fuel industrial growth. It will help banks extend credit to businesses, which are reeling under severe cash-flow problems. Rate cut will definitely boost the investment programmes of companies. Lower lending rates are expected to drive demand in sector such as real estate, automobiles, consumer electronics and all industries related to them. But just paring of rates is not sufficient. RBI should ensure that commercial banks lend to productive sectors. Since the interim budget was a non-event, all eyes are now on RBI.

IIMA - ESSEC GLOBAL MANAGEMENT PROGRAM ON LUXURY MANAGEMENT

OBJECTIVE:

This program will provide an in-depth training on the luxury business, its specificities, implementation of a luxury strategy and the exciting opportunities in this industry in emerging markets such as India. Studying the business models and best practices of the luxury market, participants will strengthen their understanding of management competencies in the Luxury Industry. Drawing on the expertise of both schools of higher education, students will expand and share horizons of knowledge in the business context of the Indian and French/European luxury markets. In understanding the nuances of this unique sector and the intangibles that make the industry unique, participants will gain a competitive advantage in these two challenging markets that will allow them transform and build international strategies of creating a luxury brand from the perspective of a developed nation and that of an emerging market, herein India.

CONTENT:

a) Anthropology of luxury consumption; b) Branding experience; c) Service dimension in luxury brand management; d) Effective loyalty program designing and implementation; e) Competitive strategy & managing multi-brand conglomerate; f) Finance and private equity in luxury industry; g) Understanding markets and consumers; h) Determining potentials of markets - location and formats; i) Managing funds & costs; j) Enhancing supply chain and information efficiencies; k) Using technology to enhance customer experience and efficiencies; l) Customer value based retailing strategy; m) Pricing for brand building; n) Managing people in the luxury industry.

FOR:

Professionals with a minimum of 5-7 years of full-time professional experience are eligible to apply. Suggested profiles include: a) Senior Executive (VP, GM); b) Line-Managers (Brands, Stores, Merchandisers); c) High Potential Young Managers; d) Experts in Luxury & Fashion Industry operating in Europe/ France and Indian sub-continent.

Experience in the following roles is preferred but not limited to: a) Commercial (New Business Development) Directors; b) Marketing Directors; c) Strategy Directors; d) Logistics Directors; e) International Controller; f) Export Directors.

FEES:

Euro 8000
(for non-Indian participants)

INR 499 000
(for Indian participants)

2 LVMH Asia Scholarships for promising participants from India

COORDINATOR:

Prof. Prathap Oburai (prathap@iimahd.ernet.in)
OR mdp@iimahd.ernet.in

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Website: www.iimahd.ernet.in/mdp

EXECUTIVE EDUCATION

DATES:
June 15-19, 2009 (ESSEC Business School, Paris, France)
August 17-21, 2009 (Indian Institute of Management, Ahmedabad, India)

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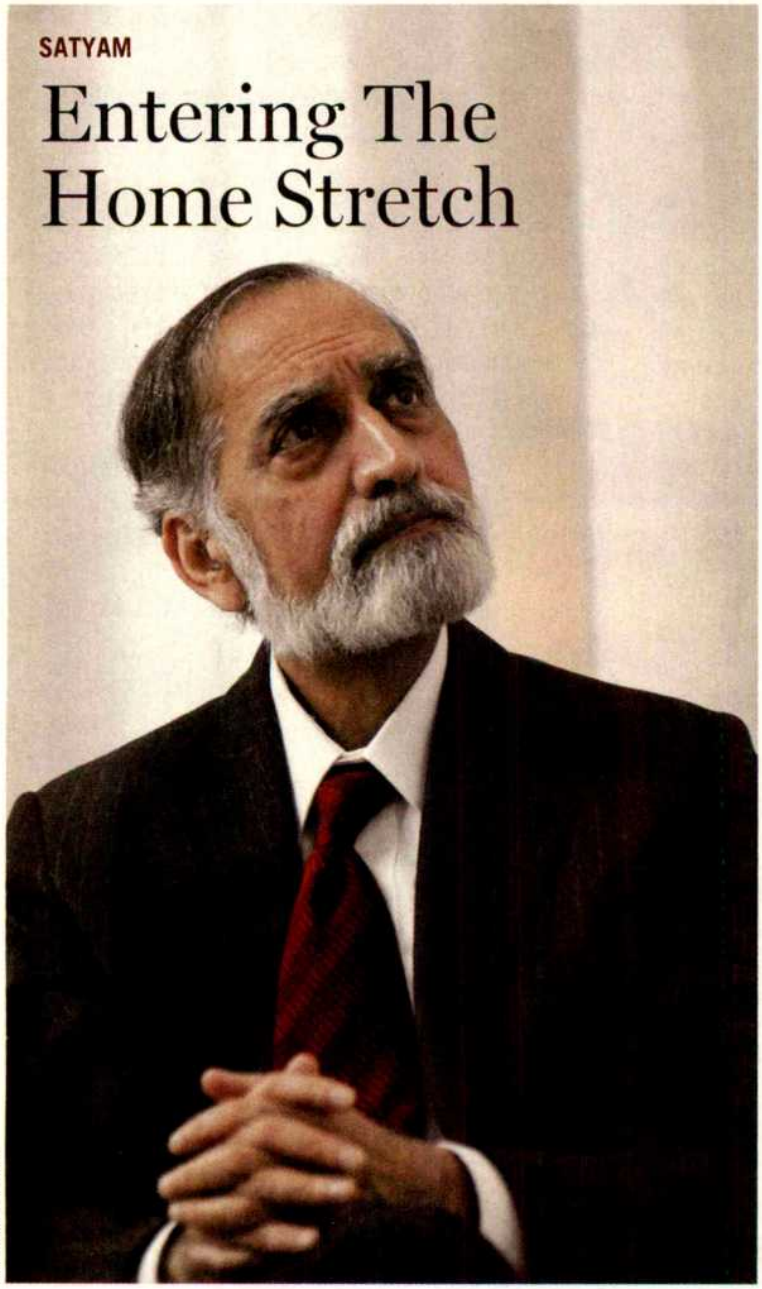
SATYAM

Entering The Home Stretch



TRIBHUWAN SHARMA

WEIGHING OPTIONS: Kiran Karnik, chairman of the Satyam board

The fate of Satyam Computers will hang in the balance for the next few weeks

THE FINAL LAP IN THE RACE FOR ACQUIRING Hyderabad-based Satyam Computers, the scandal-plagued software firm, is about to begin. This week, the board of Satyam will forward its process for short-listing bidders to the Company Law Board in New Delhi for approval. The broad outlines of eligibility are fairly clear: bidders will have to have significant expertise in the information technology (IT) industry, have a large and robust balance sheet and finances, and have the managerial talent and expertise to rebuild Satyam's business and client base.

"The list is likely to be a short one; there are few companies that can meet all or most of those requirements," says the head of an investment banking firm in Mumbai who did not wish to be identified. Potential bidders will be taking a shot in the dark, too; the restated accounts will not be ready for another six months, and the management is unlikely to provide a client list for competitive reasons.

Financial strength will be a critical criterion: potential buyers will not only have to cough up about Rs 2,000 crore for a 51 per cent stake (inclusive of the open offer), but also be able to arrange significant working capital resources to keep Satyam operational. "Satyam needs anywhere between Rs 1,000 crore and Rs 1,500 crore in working capital at the moment," says Anand Lavi, partner at Tholons Advisory, a Bangalore-based analyst firm. "Any buyer will need to infuse that amount for smooth functioning after becoming the biggest stakeholder."

So far, the known interested parties that appear to have the financial wherewithal are: L&T, the Spice Group, Tech Mahindra, the Essar Group and the Hindujas. All of them also have IT businesses of varying size, though none of which is as big as Satyam's. Satyam's enterprise solutions and offerings cover a number of areas and a broad spectrum of clients; none of the known potential bidders has the same range.

"Given these conditions, HCL is highly unlikely post their recent Axon acquisition," says Karthik Anant, engagement manager at Bangalore-based Zinnov Consulting. "In terms of cash infusion capability, the best bets would be the Spice Group which has funds from sale of Spice Telecom to Idea; L&T, which already holds a 12 per cent stake, and the Hindujas, whose parent group has the financial strength. Tech Mahindra also has the capability to arrange for the funds, but the first three are better positioned."

While the government and the company's board appear fairly optimistic, it is not clear that the acquisition will be a smooth one. The case is unique of course; but it also has clear issues in two critical areas of the acquisition process: due diligence and pricing.

On legal, financial and operational fronts, there are issues of due diligence for potential buyers: clouds over the real state and title of assets and liabilities, unresolved litigation both class action and specific, and a shrinking client list. Satyam's board has periodically been providing information about new clients, the latest being a US government agency.

Where Do We Go From Here?

This much is known: the board will approve a preferential allotment of shares of up to 31 per cent of the expanded capital base; and an open offer for 20 per cent will be made to existing

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The Bidding Parameters

The potential buyer:

- Should have the networth and capacity to inject Rs 1,000 crore-Rs 1,500 crore into the company upfront.
- Has to show firm commitment in terms of loan sanction from banks or financial arrangements from private equity or alternate but credible source of funding.
- Needs to demonstrate managerial expertise to handle the beleaguered IT firm.
- Will also have the option of buying up to 31 per cent equity through a preferential allotment of shares. An open offer of 20 per cent for existing shareholders.

shareholders. If the open offer attracts less than 20 per cent, a second preferential issue may be made to take the shareholding of the new owners up to 51 per cent.

Interested buyers will get to fill out expressions of interest, which will be kept sealed and bidders given time to review whatever information the company is likely to give them: a financials report for the past six months, a sampling of clients and work in progress, including perhaps contract sizes, the position of employees and finally an overview of unresolved litigation both in India and overseas.

Will that be enough? "Irrespective of the number of suitors, we would certainly give some basic financial information to them," says Kiran Karnik, chairman of the Satyam board. "But if anybody is looking for a balance-sheet and detailed information on the finances, it is not possible, as there is not much detail available now and the preparation of new balance-sheet will take quite some time."

But given that the restatement of its accounts is still on and it could be several weeks before the true picture is revealed, what would be a fair price? Most analysts anticipate that the formula worked out by the Securities and Exchange Board of India (Sebi) would put it around the current traded price of Satyam's stock, say Rs 50-55 a share.

Alternative Scenarios

Potential buyers have said that they will wait and watch developments, while many believe that L&T — which already owns 12 per cent — will be a front-runner. L&T Chairman A.M. Naik told reporters on 26 February that his company would hold on to its stake even if it does not win. If so, L&T is caught between a rock and a hard place: if it does not win, the company will have to mark down the value of its stake and take at least a Rs 400 crore hit to its balance sheet, given that it acquired a large chunk at about Rs 175 a share.

If it does win, L&T shareholders will also have to be satisfied that the additional investment which will take its stake well above 51 per cent is worth the money. Others point out that there is a possibility — a remote one — that there may be no buyer if the process doesn't work.

"Should that happen, Satyam may end up having to sell its business in parts," says V.R. Srinivasan, director and CEO at Brics Securities, a securities and commodities trading firm in Mumbai. "There are enough precedents for that." That would imply that specific contracts could be sold to other tech firms, without their having to take on any liabilities from Satyam, and take the people executing those contracts for Satyam.

Brics Securities itself sold its institutional broking business to US investment bank Lehman Brothers — whose India business was subsequently bought by Japanese firm Nomura Securities after Lehman went bankrupt — in 2007. Other deals similar to that one — including the sale of Citi's BPO business which comprised just one client, Citicorp — have taken place in the outsourcing industry.

But that would involve some value destruction, since Satyam as a whole is worth more than the sum of its parts. "There are just 50 companies in India whose after-tax profit is over Rs 1,000 crore, and Satyam was one of them," points out the head of another investment banking firm in Mumbai. "That's the whole point of buying a scale business in an industry where such opportunities are few and far between."

If there are no buyers at the end of the day, such value destruction is inevitable, say analysts. Should Satyam be broken up, three of the four groups of interested parties — creditors, customers and employees — would still be taken care of. The fourth group — Satyam's shareholders — has already seen destruction in the value of its stock holdings.

Satyam could well end up being the first large-scale corporate bankruptcy in India which would be settled by the market, rather than the historical avenue of nationalisation or being consigned to an agency like the Board for Industrial and Financial Reconstruction (BIFR). For the government, the other large player with a real political stake in the resolution of the Satyam case, there could be valuable lessons in corporate governance and bankruptcy management. But the race is far from over.

Srikanth Srinivas and
Dhanya Krishnakumar

ECONOMIC SURVEY

Delayed Prospects

A deferred survey will reflect the impact of the stimulus packages

AS IT WAS THE INTERIM BUDGET, THE STAND-IN finance minister Pranab Mukherjee did not table the Economic Survey for 2008-09 on 16 February. The survey will now come out only with the full-fledged budget, which will be presented by the new government.

This delay will be providential as now officials will be able incorporate the full year's data (up to March), which will help capture the impact of the three stimulus packages. If the survey was presented in February, officials would have to rely on data only till December end.

The survey provides critical statistical support to planning and policy and these become even more critical as 2008-09 has been an exceptional year because of the impact of the global financial crisis on the Indian economy. Prior to the interim-budget, the government had come out with two separate stimulus packages.

With growth slipping to 7.1 per cent, the interim budget figures show that fiscal deficit is already expected to touch 6 per cent while revenue receipts could be 7 per cent below what was budgeted for in 2008-09. These are likely to get worse with the additional excise and service duty cuts announced last week. The government has taken conscious steps to stimulate the economy. But some of these lapse by March.

BIVASH BANERJEE

PLAYING SAFE: Pranab Mukherjee did not table Economic Survey 2008-09

In an earlier interview to *BW*, Cabinet Secretary K.M. Chandrasekhar had said "Our present timeframe is something like June where we will have to review the situation."

Ironically, last year's economic survey had only one box on the sub-prime crisis, which said that "India has remained relatively insulated from this crisis".

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EDUCATION

Doomed Fate For Deemed Universities?

TRIBHUWAN SHARMA

NEW STATUS: Applications for the deemed university status has shot up

SINCE LAST YEAR, THERE HAS BEEN A MAD RUSH OF private colleges trying to get the status of deemed universities from the ministry of Human Resource Development (HRD). While in 2006 only 30 proposals were submitted for the purpose, the number rose to 56 in 2007 and shot up to 76 in 2008. Reason: the Yash Pal committee, set up by the Prime Minister, is likely to recommend an end to this system in its report, which will be submitted to the HRD ministry and to the Prime Minister's Office in March.

Also, once the dates for the Lok Sabha elections are announced, there will be no clearances till the next government comes to power. If the proposal of the committee is accepted, it would mean no more issuances of deemed university status after December 2009. The recommendation for such a status, which gives the institutes freedom to design courses, make changes in the curriculum and decide the intake of students, comes from the University Grants Commission (UGC). According to UGC sources, there were as many as 214 colleges waiting to get the deemed university status as on 31 December 2008. Some applications pending since 2000. While many apply for the status, only a handful with the right connections and money power manage to get it. From January 2008 till date, 32 clearances have been given, while only 14 were given in 2007 and even less in 2006. The latest two notifications were issued on 20 February, one in favour of the Koneru Lakshmaiah Education Foundation, Vijaywada, Andhra Pradesh, and the other for the inclusion of seven institutions under the ambit of KLE Academy of Higher Education and Research in Belgaum.

The Yash Pal committee is likely to recommend an end to the system

The highest number of applications with UGC are from Tamil Nadu (36), followed by from Andhra Pradesh (26) and Maharashtra (22). This, at a time when the chorus against the system itself is getting louder. Uttar Pradesh Governor T.V. Rajeshwar recently reportedly termed the growing number of deemed universities in Tamil Nadu as a "worrying factor".

Under Section 3 of the UGC Act, the provision for deemed university status was made to bring under the commission's purview institutions "which for historical reasons or for any other circumstances are not universities and yet are doing work of a high standard". Despite such a lofty purpose, the system has degenerated into a money-making proposition for all the stake-holders involved. In a letter dated 19 May 2008, UGC Secretary R.K. Chauhan had written to the vice-chancellors of 103 deemed universities "it has been observed... some of the deemed to be universities are not functioning as per well-defined objectives and norms..."

According to A.M. Sherry, dean of the Institute of Management Technology, Ghaziabad, the basic idea behind the system is noble — promoting education in backward areas, specially for girls. "Some institutes are indeed doing good work, but it is largely being misused now." The solution lies in stricter monitoring and implementation of rules, Sherry says.

However, Lavu Rathaiah, chairman of Andhra Pradesh-based Vignan Foundation, which got the deemed university status three months ago, feels that the status "helps in revitalisation of the course structure and also enables the formulation of a better evaluation process to reflect the overall personality of a student". Such cases are more an exception than the rule though. As per reports, one of the 27 high-profile members of the Yash Pal committee, too, had rued recently that the deemed university system had become exploitative and that the institutions were charging high fees but had not been successful in providing quality education.

While the recommendations of the National Knowledge Commission set up by the Prime Minister have all been rejected by the HRD ministry, it would be interesting to see what fate befalls the Yash Pal committee recommendations.

Shalini S. Sharma

BROADCASTING

Licence To Fleece

Taking a cue from cable operators, DTH players, too, now demand carriage fees

TELEVISION BROADCASTERS HAVE A NEW PROBLEM on hand. Hit by falling ad revenues and reeling under the weight of astronomical 'carriage fees' charged by cable networks, they now face the demand of 'carriage fees' from direct-to-home (DTH) operators such as Tata Sky and Dish TV. "DTH came in with the promise of cleaning up the industry of the distribution mess, but now we have the DTH companies too demanding carriage fees," Aroon Purie, chairman of the TV Today Group recently said at Ficci's entertainment convention in Mumbai.

Carriage fees originated with cable operators as an 'informal' levy on broadcasters for carrying their channels in the more visible bands. According to Purie, cable operators collected Rs 1,500 crore in carriage fees in 2008. Shantonu Aditya, executive director of UTV Global Broadcasting, says his network was not being carried by Dish TV for several months due to the network's resistance to paying carriage fees. "They have taken us on air without payment now, but several general entertainment channels are paying Rs 3 crore-4 crore a year for carriage," Aditya reveals.

However, Dish TV's CEO Jawahar Goel justifies the practice. "If the broadcasters have their costs to bear, we, too, are burning Rs 2 crore a day to get subscribers and uplink their channels. Like cable operators, our capacity too is limited because of transponder space," he points out: "If Doordarshan can annually charge Rs 60 lakh formally and another Rs 60 lakh informally per channel, and if Colors can pay the cable guys Rs 150 crore a year, what is wrong in (our) charging them Rs 6 crore?"

Goel blames the broadcasters for starting carriage fees. He, however, clarifies that there was no standard rate card and charges were negotiated on 'ability to pay'. To ease the pain, DTH operators have come out with novel packages. For instance, UTV channels are being carried free by Dish TV, but the subscription revenue they generate is retained by Dish. Similarly, barter deals have been negotiated by DTH companies for free commercial airtime on channels in exchange for carriage.

SANJAY SAKARIA

BARGAIN POWER: Early entrants such as DTH and Tata Sky have 8 million subscribers

DTH as a platform for satellite channels and pay-per-view movies have exploded in recent years. According to a recent KPMG report, there are 10 million DTH subscribers — or nearly 10 per cent of the total television homes — in India. However, these subscriber numbers have come at a huge price. For instance, the marketing cost and hardware subsidy for each Dish TV subscriber is estimated at Rs 2,500 and for a Tata Sky subscriber as much as Rs 3,500. The competition, too, is severe.

While Dish and Tata Sky command about 8 million subscribers between them, three late entrants — Airtel, SunDirect and Big TV — are also jostling for customers. The tight competition has resulted in lowering subscription charges and putting further pressure on margins. Dish TV incurred a loss of Rs 413 crore in FY2008, and its CEO Goel says the current year, too, will end with a Rs 400 crore loss. So, levying carriage fees by DTH companies is only likely to be more institutionalised.

Gurbir Singh

Microsoft

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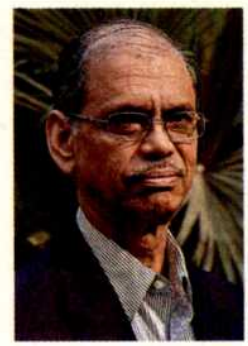
Rebalancing Sino-US Ties

by nayan chanda

UNTIL THE ARRANGEMENT WENT OFF THE RAILS last summer, the global economy was pulled by two engines: one producing and saving and the other consuming and speculating. China manufactured its export on full throttle and lent its massive savings to fuel America's consumption binge. Buoyed by low-interest credit from China and the world, Wall Street built ever higher castles in the air, including unintelligibly risky mortgage-related securities. Now that the castle has fallen, the Chinese engine has stalled. Re-igniting these engines is not just the worry of Washington and Beijing, but of the whole world. Talk of 'decoupling' Asia has given way to the new buzzword: global rebalancing.



Continued Chinese investments in the US Treasury hold the key to global economic revival

The relation that needs rebalancing the most is also the hardest. Although China's exports have dropped 18 per cent year-on-year, it is still sitting atop a mountain of trade surplus and its reserves stand at a record $2 trillion. Nearly half of that reserve is believed to be invested in US Treasury bonds and other dollar-denominated assets. Over the years, Chinese purchases of US treasuries helped keep US mortgages low and acted as a vendor's credit. American consumers borrowed heavily to acquire houses and turned these collaterals into virtual ATMs to borrow cash and buy giant television sets and SUVs.

With export orders drying up and near-zero earnings from treasuries, can China continue as before? As Barack Obama's massive stimulus package pushes the budget deficit to over $2 trillion in 2009, America's need for China's investment is greater than ever. But the stimulus bill's 'buy American' provision and Washington's anti-dumping complaint against China threaten to hurt the very export that allowed China to be the top lender. With rising debt and the risk of the dollar falling, China is increasingly wary of putting all its investment eggs in the dollar basket.

Not surprisingly, US Secretary of State Hillary Clinton used her maiden trip to urge China to keep buying US Treasury bonds. A skittish world waits to see if China will oblige. The global economic interdependence is now just too deep to fail. And despite a sharp drop in demand, the US market remains China's biggest customer.

Despite the economic turmoil the dollar remains the world's reserve currency, and China finds itself in the position of a banker whose outsized customer's loan default becomes the bank's problem. If China is seen as beginning to liquidate its treasury holdings, the resulting stampede away from the dollar will be ruinous for China. On the other hand, as the biggest creditor, China's economic clout can be turned to other advantages. It was no coincidence that Clinton, remembered for her tough words on China's human rights records, said she would not allow differences on human rights to interfere with Sino-US cooperation. As Clinton put it, "By continuing to support American Treasury instruments, the Chinese are recognising our interconnection. We are truly going to rise or fall together." With its new clout, China might pry open the door to US high-technology and dual-use items that have been denied to it in the past.

While China might have to continue to be America's reluctant creditor, the other job it is being asked to perform — slow down its export engine and ramp up domestic growth — will not be easy. Falling exports have already led to thousands of factory closures, sending some 20 million workers back to their villages. The Chinese government has adopted a massive $586-billion stimulus package, directed mostly at infrastructure projects. How many jobs they will create remains to be seen. The government attempt to keep factories humming by creating demand for appliances and household items through subsidy and cash handouts has had limited success because unemployed workers tend to hold on to their wallets for fear of worse times to come. In the absence of a social safety net and health insurance, saving has always prevailed over spending; it is more so now than ever. To address this core obstacle to balancing the economy the Chinese stimulus package also includes an 850 billion yuan ($124 billion), three-year plan to spread health insurance to 90 per cent of the population.

The impact of the stimulus may kick in slowly and China's growth rate this year may fall below the 7 per cent target, but the rebalancing of the economy being forced upon China by the crisis may prove to be a blessing in disguise.

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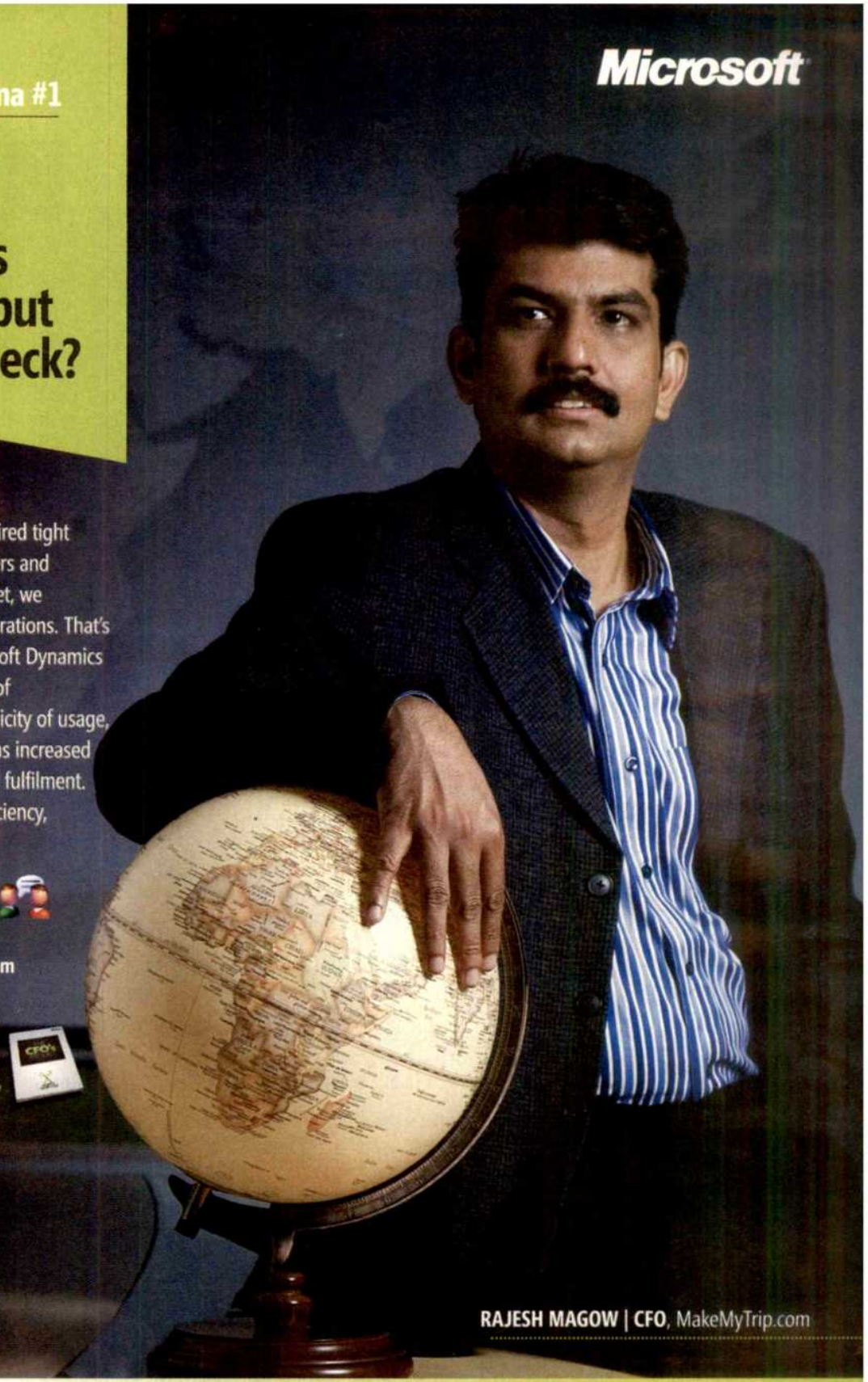

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The B[l]owout At

by Gurbir Singh

The media industry's longest-serving CEO lived dangerously throughout his 14 years at Sony

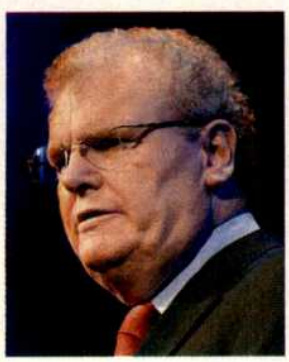
THE release announcing the end of Kunal Dagupta's 14-year run as CEO of Multi Screen Media (MSM; formerly Sony Entertainment Television) was politically correct, yet bland, as such memos often are. "Dasgupta leaves Multi Screen well positioned for further growth, with a stable management, strong programming schedules and the rights to the Indian Premier League, making it one of the most valuable properties in Indian television," said the announcement from the office of Andy Kaplan, president of Sony Pictures Television International (SPTI).

More than acknowledging Dasgupta's contribution in growing a fledgling Sony's entertainment business to a Rs 1,800 crore broadcasting network, the Kaplan officialese hid the real reason behind Dasgupta's exit. Poor performance of channels and his ill-timed and expensive moves had brought down flagship Sony Entertainment Television from No. 1 to No. 4 in the broadcasting pecking order. Few outside the MSM board of directors knew Kaplan had already sealed Dasgupta's fate at a board meeting well before the announcement on 19 February. The decision to "let go of Kunal" was taken after Andy Kaplan and Michael Lynton (another Sony representative) were convinced that "it had to happen," an MSM board member told *BW*.

It was more the timing of the announcement that raised eyebrows. One, because there was a widely publicised spat taking place between Sony, IPL and Big TV over the money for the DTH and on-ground rights. Two, because the announcement of Dasgupta's exit was made just a couple of months before his current contract was to expire. In normal course, Dasgupta's contract would have ended in June this year, and the board could easily have waited that long to let him go.

The IPL affair was a red herring, as you will understand by the time you have read this story. Dasgupta's abrupt exit was the culmination of six years of tension between majority shareholder SPTI that owns 61 per cent of MSM, on one hand, and Atlas Equifinn on the other, which is a consortium of Indian shareholders (Singapore-based Rakesh Aggarwal, World Media Group director Sudesh Iyer, Shemaroo Entertainment Managing Director Raman Maroo, MobiApps Holding's Jayesh Parekh, B.R. Sule, Sushil Shergil and actor Jackie Shroff) holding 32 per cent. Capital Japan and some financial institutions own the rest 7 per cent. And of course, the third protagonist is Dasgupta, who walked a tightrope and managed to keep his job for over 14 years despite the fact that neither group of shareholders was too happy with him.

ORDER PASSED: Sony Corp Chairman Howard Stringer endorsed Kunal Dasgupta's exit



JOIN HANDS: The Indian promoters, including Jackie Shroff, for once agreed with the international partners

THE NEXT IN LINE: N.P. Singh, the current COO is tipped to step into Dasgupta's shoes

Referee In A Catfight

Very little information has trickled out of the unlisted MSM, many of whose promoters are based offshore. But there has been continuous jousting between Sony Pictures and the minority Indian partners since the company's inception.

Sony

Sony Corporation does not enter into joint ventures as a policy. However, Sony Pictures Entertainment needed a JV in India because in 1995 it represented an opportunity to enter India early when the law then did not allow foreign-owned broadcasting companies. But the relationship between Atlas Equifinn and the Indian investors has been far from easy.

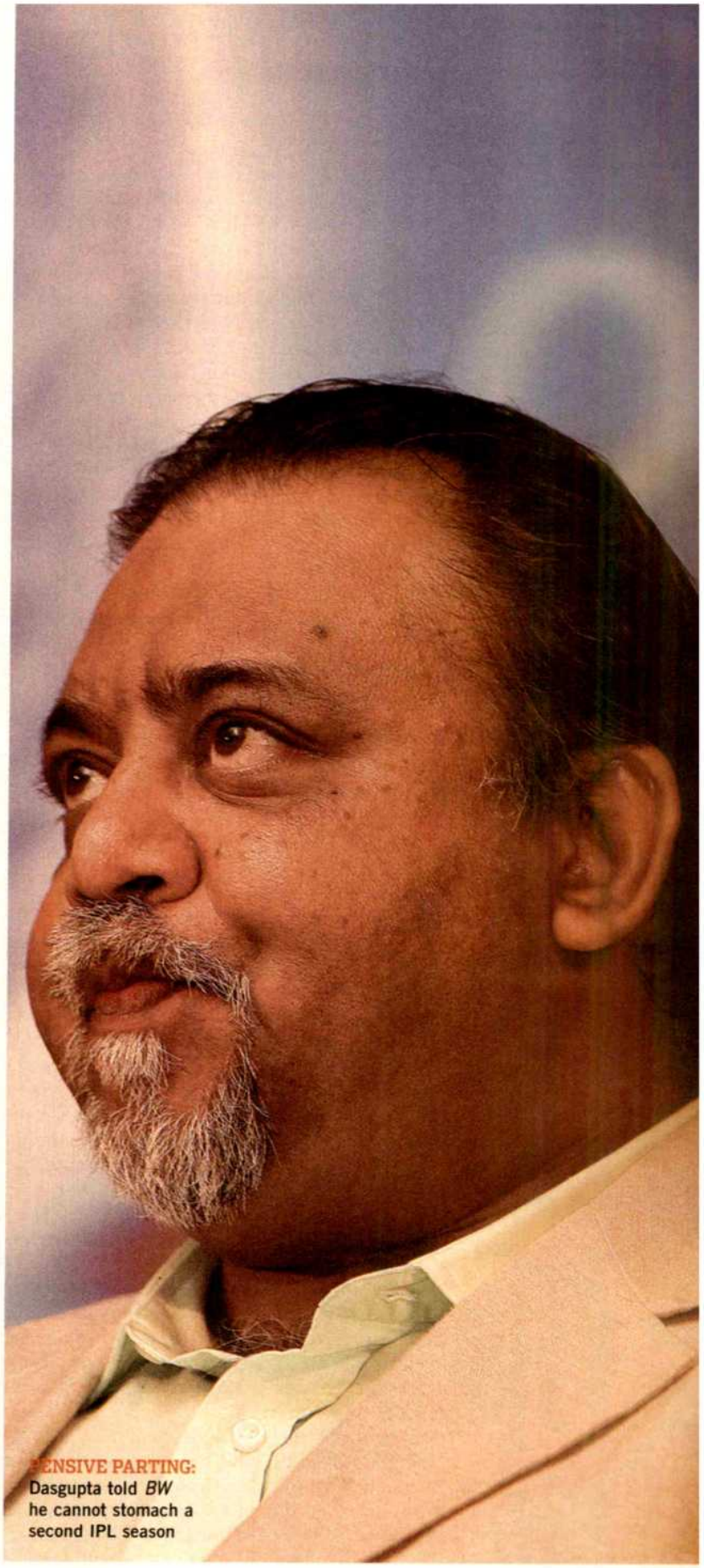
With Sony and Atlas at loggerheads, it was Dasgupta's job to play the balancing act. "He was sometimes the good guy, sometimes the bad. Kunal kept telling Kaplan that he was the only one who could handle the Indians (promoters). And Kaplan believed Dasgupta for quite a while," says Chris McDonald, currently CEO of Ten Sports and a veteran of cricket broadcasting.

Going public, for instance, has been a major bone of contention between Sony Pictures and Atlas. While the minority investors needed an exit route, Sony has been delaying the process.

Atlas also objected to roping in of the Singapore-headquartered WorldSports Group (WSG) for consortium bidding for the Indian Premier League (IPL) telecast rights in January 2008. "Where was the need to bring in WSG as a party when the actual bidder was Sony? There could have been a direct deal with Sony," says the spokesperson for the Indian promoters. "Even the initial $9 million paid by WSG for the rights was advanced by Sony," he added. The SET India-World Sports consortium won the telecast rights of the IPL for around $1 billion (around Rs 4,000 crore) for 10 years.

Bidding for the recent India-Sri Lanka ODI series was another sore point with minority shareholders. Dasgupta had got a board clearance for up to $9 million for the telecast rights. However, Indian promoters say MSM dropped out mysteriously at the last minute, leaving the pitch clear for Nimbus Sports to bag the rights for $6 million, uncontested.

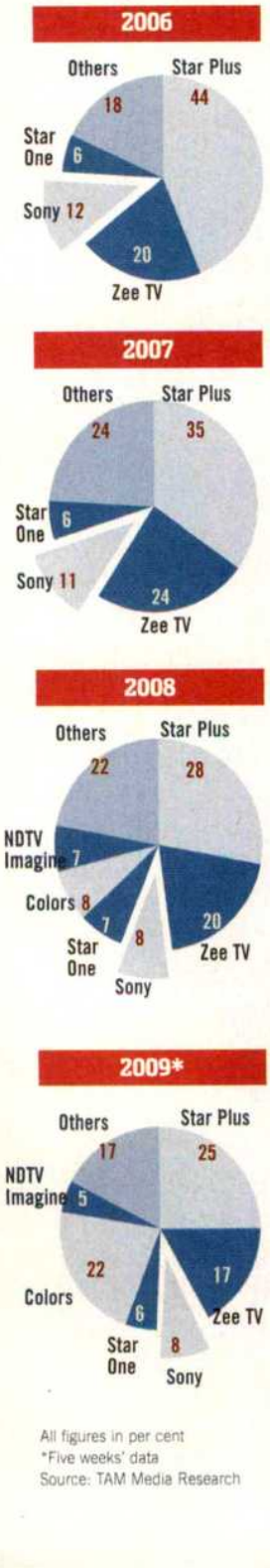
The charges of arbitrariness and irregularities have a long history. The Sony director who spoke to *BW* disclosed that as far back as 2000, when the ICC World Cup rights came up for bidding, Dasgupta inexplicably escalated the costs by nearly 10 per cent. "We were told that the rights had been priced at $186 million, and



ENSIVE PARTING: Dasgupta told *BW* he cannot stomach a second IPL season

THE GRADUAL DECLINE

Sony's channel share has fallen drastically in the past few years



All figures in per cent
*Five weeks' data
Source: TAM Media Research

the next thing we know they cost us $205 million. Kunal thinks we must be suffering from collective amnesia!" Analysts also questioned Dasgupta's decision to acquire the poorly performing channel SAB TV from Sri Adhikari Brothers in March 2005 for Rs 57 crore.

According to one of the Indian promoters, the tables finally turned when the Sony Pictures' brass accepted the Indian consortium's demand to replace Dasgupta. "Both Kaplan and Michael Lynton (chairman & CEO of Sony Pictures) agreed with us. So did the overall chief Howard Stringer (chairman of Sony Corp, US) though he is not on the board. A resolution was passed to replace him," the Indian consortium's spokesperson said requesting anonymity.

Schemer, Plotter Or Survivor?

In the media and entertainment world where CEOs churn as fast as new soaps, Dasgupta is an odd case to hold the record of the longest-serving CEO of a media company considering he had no prior background of broadcasting (he joined Sony at 40 as CFO from luggage-maker VIP Industries in 1995 and was appointed as the COO in 1996 and as CEO in 1998). In at least four instances, when the Sony board tried to either replace Dasgupta or identify his likely successor, he managed to turn the tables on the board.

He ruled with an iron hand and displayed an astute sense of real politik, demolishing both dissent and internal competition ruthlessly. Take the case of Rajesh Pant, who was hired by Dasgupta in 1998 from Citibank in Dubai, but who emerged as a possible successor to his boss. Pant was appointed as COO and the No. 2 of Sony Television in 1998 after Dasgupta's elevation, but was soon sidelined in 2001 when there was speculation in the company of Pant replacing Dasgupta. "I was moved out of day-to-day management of the main channels into the Sony Films division," recalls Pant who now owns and runs a small Infotech company. Sony Films was ultimately closed down and Pant left in January 2002.

Sunil Lulla, hired as executive vice-president and business head of the flagship channel in July 2002 to shore up the channel's lacklustre performance, faced a similar fate. The Indian promoters made it clear early on that Lulla was their man to replace Dasgupta. However, Dasgupta turned the tables on Lulla by shunting him from the business head of the main channel SET to head a virtually non-existent division called 'digital & licensing business' and new initiatives. Lulla quit in February 2005.

Again, in 2004, Dasgupta managed to sidestep a board resolution moved by the Indian consortium seeking his removal for botching up plans for an IPO.

Spikes And Troughs

Beyond his machinations and politicking, even his detractors and critics acknowledge that Dasgupta was a pioneer in broadcasting. He built Sony Entertainment Television (SET) from a single channel to a six-channel network comprising cricket and cinema channel Max, Sony Pix, AXN, SAB and kids channel Animax.

"Kunal showed exceptional leadership especially in times of adversity," recalls Arun Arora, Sony's former CEO who recruited Dasgupta. According to Peter Mukerjea, Star Group's former CEO, "He is a maverick, but he has a lot to show for his years. Cricket and IPL would not be what they are without him."

In the late 1990s, it was Dasgupta who brought the heady mix of cricket and Bollywood to the small screen. When Sony was jostling for No. 1 position with Zee TV with Star Plus still far behind, Dasgupta bought satellite rights of new film hits and some old blockbusters, and began driving audience numbers by offering movies on weekends.

Sholay was bought for an unheard price of Rs 1 crore, J.P. Datta's famous hit *Border* went on television at a similar price. Star Plus and Zee were forced to match Sony and satellite film rights went through the roof. But Dasgupta took a step ahead. He began creating Bollywood events especially for television, including a Lata Mangeshkar night and then an Asha Bhosle event. These events were huge hits.

Again, it was Dasgupta who broke the monopoly of sports channels ESPN and Star Sports and introduced cricket on general entertainment channels. Sony created a sensation by bagging the ICC's World Cup telecast rights for 2000-07 for $205 million. "Nothing sells like cricket. People go away, but the moment India does well, they are all glued to their TV sets," he once told this writer. But cricket has also proved to be his Achilles Heel. The first World Cup round in 2002 went well, but 2007 proved to be a washout with India being knocked out in the qualifying round. Media pundits estimate Sony lost between $20 and $40 million, but a Sony director says, "The advertising was pre-sold. We broke even."

Sliding TRPs

However, it was flagship Sony Entertainment Television's sliding fortunes and, therefore, the pressure on the bottomline that really brought the spotlight on the failure of leadership at Sony, triggering Dasgupta's exit. After all, 60-65 per

The INNINGS IS OVER "I will go off and play some golf"

Before exiting, Kunal Dasgupta signed a non-compete agreement in exchange for a fully-paid layover from MSM for a year. As for his future plans , a senior media executive says he may produce movies targeted at DTH audiences. Gurbir Singh caught up with Dasgupta for his version:

Q: Indian promoters of Sony have been baying for your blood.
A: Yes, they must be pretty happy to see me go. But no, they have not been against me... It (has been so) only in the recent past.

Q: They also wanted you out when the proposed IPO in 2004 failed.
A: Yes, that is true. It has not been easy managing the two sides.

Q: So why leave two months before the contract ends?
A: It has been a long innings. It is time a younger person took over. I will go off and play some golf.

Q: Aren't you going to do something in entertainment? Make films for example?
A: I cannot do anything for one-year. There is a non-compete clause that I am bound by.

Q: Did you leave because of the IPL mess or because of a host of issues, as Indian investors say?
A: No, there is no mess in IPL. There are issues but that will be sorted out soon. What are the Indians stakeholders saying?

Q: That the network slid to No.4.
A: It is true that Sony has gone down. Colors went ahead and that is important.

Q: What is Sony's challenge now?
A: The main challenge is to face the current recessionary conditions; and build new programming.

cent of all channel revenues are cornered by the Hindi general entertainment channels, and they are the main drivers of subscription revenue too. "Our flagship channel has slipped from No. 1 in 1999 to No. 4. For the last few months, there has been no leadership; he is never around," said one of the major Indian promoters.

In an interview with *BW* (see 'The Innings Is Over'), Dasgupta did not respond to the charges of the minority shareholders in respect of the induction of WSG for the bidding for IPL telecast rights and the loss of the Sri Lankan rights.

Examined across a decade, SET's slide is significant. In 1999, when Zee TV ruled supreme, a ghosts-and-goblins show *Aahat* gave a leg up to Sony to No. 1 for a short but significant period of time. July 2000 onwards everything changed in entertainment television with *Kaun Banega Crorepati* and the Saas-Bahu soaps hurtling Star Plus from nowhere to No. 1 by a huge margin.

Even though Sony held fort for a few years, that changed from November 2005 when Zee TV made a comeback with two strong shows — the soap *Saat Phere* and the singing contest *Sa Re Ga Ma Challenge*. By January 2006, Zee TV had notched an audience share of 15 per cent compared to Sony's 13 per cent. The slide worsened for Sony with the entry of Colors in July 2008. Two or three well made and hugely marketed shows gave a dream start to the channel and pushed Sony down to No. 4. By the beginning of 2009, Sony had a poor 8 per cent of the viewership share of the Hindi entertainment television market compared to leader Star Plus's 25 per cent and Colors's 22 per cent.

The Future Of Sony

Dasgupta leaves Sony in a precarious position with low marketshares, lower morale and channels without sharp focus. While Sony has significant sports properties such as IPL rights and the current New Zealand series, and is strong on movies and Bollywood reality shows, it is weak in general entertainment programming. "Sony's content is weak and there is a clutter of cricket and events that is confusing audiences," says Arun Arora, former Sony CEO and now chairman of an education chain called Avance Group.

Critics also say that Sony's different channels have overlapping programming and are confusing for the viewer as well as the advertiser. AXN is a mix of action movies, shows and adventure sports; Max with a cricket and Bollywood movies concoction has left audiences scratching their heads. According to KPMG's entertainment practice chief Rajesh Jain, "While Sony has intelligently used cricket to increase subscription revenue and penetration of its channels, viewers need to know what the focus of AXN and Max is."

Though a few reality shows like *Indian Idol* have performed well for Sony, its soaps have been flagging. Today, it has just three shows (*Indian Idol*, *CID* and *Boogie Woogie*) in the Top 50 television programmes, but none of which are in the Top 20. "Events and cricket may give the channel its spikes, but nothing can replace consistent, good programming," says Rajesh Pant, former COO of Sony.

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And The Game Begins

by Feroz Ahmed

With only five weeks to go for IPL, Sony needs to sort out the broadcast contract

SONY MAY NOT HAVE EXACTLY REMOVED KUNAL Dasgupta for causing embarrassment and loss to the company by violating contractual obligations with Indian Premier League (IPL), but the event may well have soured his relationship with his employers Multi Screen Media (Indian subsidiary of Sony Pictures). Because Sony is now left to deal with the consequences of one of Dasgupta's last executive orders.

It will still be liable to compensate IPL if it cannot prove that it did give IPL's ground sponsor Big TV the first right of refusal to be the exclusive broadcast sponsor in its business category — direct-to-home (DTH) television — before awarding the contract to Big TV's rival Airtel Digital that too at a lower price. Big TV has alleged that in a Rs 55-crore Sony-Airtel deal, the amount meant exclusively for IPL broadcast is only Rs 30 crore, which is less than what it was offered.

TOO MANY STAKES: With Dasgupta's exit, Anil Ambani (above) and Lalit Modi are confident in resolving the on-ground deal

The cost of impropriety would be severe. One, Sony will have to either go back to Big TV promoter Reliance Communications (R-Com) pleading for a fresh deal or bear the Rs 137 crore cost of replacing Big TV as the ground sponsor of IPL; second, if Sony now goes back on the tie-up with Airtel, it will have to face a lawsuit from that company.

According to Sundar Raman, chief executive officer, IPL, the process of verifying Big TV's allegation is still on, and Sony has been asked to provide all the documentation to prove Big TV wrong. "One of them is in violation of contract with IPL," says Raman.

In any case, Dasgupta's departure does not solve Sony's problems with IPL or its broadcast rights partner, World Sports Group (WSG). WSG India CEO Venu Nair on the other hand, points out that his deal with Sony will not be affected by Dasgupta's departure, though it was Dasgupta, who was the prime mover of the sub-contracting India broadcast rights for IPL from WSG. Also, he is not too worried if IPL decides to sack Sony as the broadcaster by some quirk of fate. "I'd be jittery if IPL had not been such a big hit," he says. "There will be no problem replacing Sony with another broadcaster as both the sports and entertainment channels are looking for a money-spinner in these lean times and there is no bigger money-spinner than IPL," he says.

Sneha Rajani, business head of SET Max, the Sony channel that broadcasts IPL, is sanguine that everything is going to be fine. "Everything is resolved with IPL. There is no problem any more," she insists.

With just five weeks to go for the start of IPL, Raman is expecting a prompt proof from Sony, or lack of it, so that the contractual issues can be sorted out quickly and everybody can focus on the event.

However, R-Com does not seem to look at the issue in as simple terms. While Raman says that Big TV cannot unilaterally cancel a contract, an R-Com spokesperson hints at its attempt to renegotiate terms with IPL. "We've sent IPL a termination letter and we've not received a counter offer yet," he says. That gives credence to the allegations that R-Com was trying to use its first right over broadcast sponsorship in the DTH category to negotiate a lower price of broadcast sponsorship.

In fact, R-Com did demand up to 50 per cent discount on airtime rates from Sony saying that a ground sponsor of IPL ought to get a preferential treatment. R-Com has also alleged that Sony demanded a premium, and when that was denied, it went and sold the sponsorship to Airtel at a discount.

"Sony is too seasoned a broadcaster to try any silly stunts," says a sceptical head of a media-buying agency while conceding that Sony may have packaged the same deal differently for Airtel. Sony is allegedly dividing its Rs 55-crore sponsorship package to Airtel between IPL broadcast and its entertainment shows with only Rs 30 crore marked for IPL broadcast.

Many may see Kunal Dasgupta as the fall guy in Sony's attempt to assuage IPL and R-Com. But the final rites of these fracas are still to be performed. The sports industry consensus is veering towards a peace deal as too many politicians are involved with cricket and elections are round the corner.

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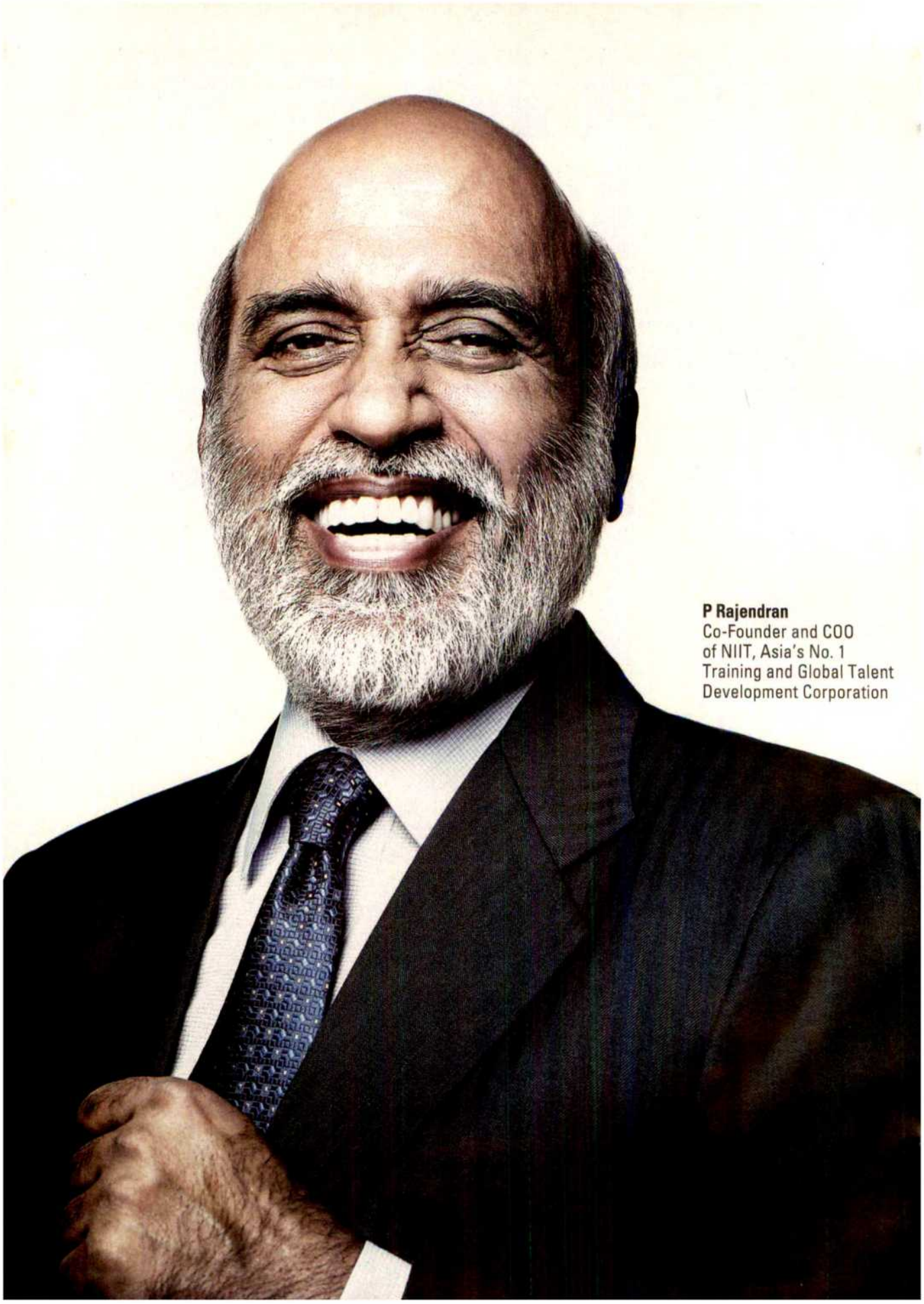

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Double Impact

PIERRE MARIO FITTER

China's economic slowdown brings its skyrocketing trade growth with India down to earth

THANKS TO GLOBALISATION, INDIANS have enjoyed the internet, mobile telephony and increased consumer choice. Now, the global economic crisis brings us the dark side — a receding tide that maroons all ships. Ask Sunny Sethi, a 32-year-old shopkeeper in New Delhi's Gaffar Market, a one-stop mart for 'imported' goods sold below 'official' prices. Sethi is a typical Gaffar Market shopkeeper — ever-smiling, uncommonly persuasive, and boasting a repertoire of goods ranging from branded sunglasses to cellphones to laptops to even night vision goggles and bullet-proof vests (which he is careful about selling now for obvious reasons). But as a bargaining duel for a pair of 'Ray-Ban' sunglasses turns too hot for the normally unflappable shopkeeper, the smile disappears. "Sir, you do not understand," he protests. "I cannot give it cheaper. Everything is imported from China, and my costs have gone up. And after the recession — that is the right word isn't it? — no one is buying like they used to."

Thanks to the seizure in the Chinese economy, 'recession' is a word that every shopkeeper at Gaffar Market, nay, every shopkeeper in India who sells Chinese products has become familiar with. Equally, the tremors of the slowdown in the Middle Kingdom have been felt by companies — large and small — that do business in and with China. Between 2003 and 2008, bilateral trade grew 10 times to reach $52 billion. In early 2008, China even overtook the US to become

India's biggest trade partner (a position it has since relinquished to the erstwhile leader in October-December 2008). Now, that growth has taken a serious beating.

In January 2008, India imported $2.75 billion worth goods from China. By October, monthly imports fell 19 per cent to $2.23 billion. But it is exports that have been hit the hardest. While India sent across $1 billion worth of goods in January 2008, it managed only $345 million in October — a 65 per cent drop in just eight months. Simultaneously, India's trade deficit with China has been climbing — from $1.67 billion in January, it climbed to $2.35 billion in May, settling to a relatively less alarming $1.89 billion by October — thanks in large part to steadily falling imports from China.

A combination of an expensive dollar, increased protectionism in both countries and frozen lines of credit have dropped the otherwise pesky tails of virtually every major commodity traded between India and China. "The past three months have been particularly serious," says a senior China advisor at the Confederation of Indian Industry (CII) who requested anonymity as he is not authorised to speak to the media. "The real impact will only be clear after some more time; after more job losses are seen and exporters declare their results."

The only silver-lining is that trade with China is roughly 5 per cent of India's gross domestic product (GDP) — and a slowdown here would not affect the larger economy too much. "Also, we do not really figure on China's radar as far as trade is concerned," says Piyush Bahl, founder of the India-China Alliance Centre, an organisation that consults with companies and students on entering China. "We are less than 2 per cent of their total trade."

But that is cold comfort to the hundreds of companies and thousands of workers in several sectors that have been adversely affected by the slowdown in the Chinese economy.

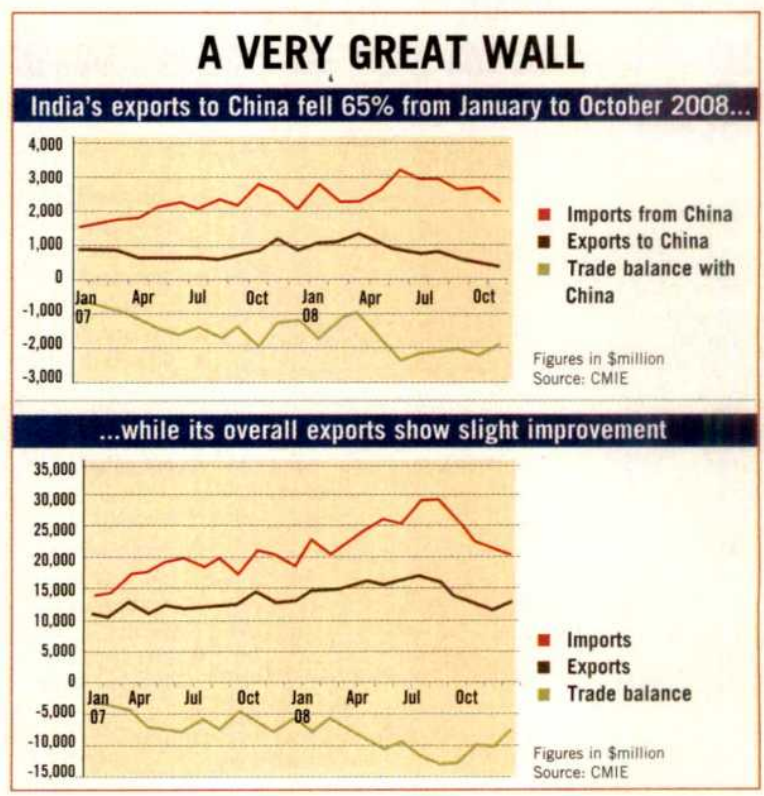
The Slowing Dragon

A look at the numbers from China's National Bureau of Statistics reveals just how bad things have gotten of late. China's GDP growth was 10.1 per cent last July, down from 12.6 per cent a year before. This January, it fell to 6.8 per cent, the lowest since 1991. Thanks to the recession, the US, Japan and the European Union — China's largest trade partners — have all cut demand for Chinese goods. Chinese exports fell for the third straight month, and the most since 1996, with a 17.5 per cent decline in January 2009 over the corresponding period last year. Imports into China also fell by 43 per cent, according to China's customs bureau.

In fact, the drop in global trade, driven mainly by Chinese exports to its big three partners, is so steep that the Baltic Dry Index, which tracks the price of shipping dry cargo, plummeted from a high of 11,793 in May 2008 to 663 in December due to reduced demand for shipping services. It recovered slightly thereafter to 1,316 on 4 February 2009.

Remarkably, for a nation of 1.3 billion, China's domestic consumption remains weak. So attempts to sell unsold export inventory in the domestic market have not been too successful. "This is not accidental," says Yasheng Huang, associate professor of international management at MIT's Sloan School of Management. "China's GDP has expanded enormously, but the income of the Chinese population has expanded at half that rate." Besides, most Chinese exports were designed for western tastes, so it has not been easy to sell these to domestic consumers.

"A Chinese peasant will not find it terribly enticing to buy a Barbie doll," says Huang. "So to sell, they have to discount their inventories. The figures I hear are something like selling their inventories 20-30 cents on a dollar." The consequent downward pressures on margins, on wages, on future investments and on bank payments, and the overcapacity at factories mean that some 20 million Chinese factory workers are now without jobs.



Blow On India's Chin

Now, since its factories are shutting, China's demand for raw materials — which comprise most of India's exports to that country — has seen a dramatic drop, hitting Indian exporters hard. Take iron ore, which makes up the biggest component — 50 per cent — of all Indian exports to China. In March 2008, India exported $798 million worth of iron ore to China. Eight months later, in October, exports had fallen to $201 million. "Nearly 70 per cent of our exports go to China, so there is heavy dependence on them," says the president of a Kolkata-based iron ore mining company who did not want to be identified as he is lobbying the Indian government to protect his industry. "We had to stop production in October and November. A lot of exporters and traders who came into the business have had to stop the iron ore business."

Adds R.K. Sharma, secretary-general of the Federation of Indian Mineral Industries, "The financial crisis hit steel production, so the Chinese stopped buying iron ore from us." Demand also fell following the conclusion of the Beijing Olympics. To make things worse, India increased the export duty on iron ore to 15 per cent in September, after hiking railway freight costs by 62 per cent last February. "Our stocks just stopped moving," says Sharma

The hardest hit commodity has been raw cotton. Exports fell 99.95 per cent from $174 million last March to an incredibly low $100,000 in October, according to the Centre for Monitoring Indian Economy (CMIE). Mohan Uchil, who oversees trade for the Cotton Association of India (CAI), says that in August, China asked that all cotton imports be registered with its General Administration of Quality Supervision, Inspection and Quarantine. This caused several procedural delays, which exporters term "unnecessary". But the bigger reason for the drop in exports is that the Indian government increased the minimum support price (MSP) on cotton last September to help farmers. This in turn made Indian cotton more expensive than that from countries such as the US or Uzbekistan.

Today, thanks to the higher MSP, most farmers sell their produce directly to the government. This has put most of the cotton stock in the hands of the Cotton Corporation of India (CCI), a government-run cotton marketing organisation. A Mumbai-based cotton industry consultant who did not wish to be identified says the CCI had an inventory of about 7.2 million bales of cotton last year, but thanks to low demand from China, it could move only 1.2 million bales through exporters. Exporters would only buy cotton from the CCI if they received orders from China, keeping their own inventories fairly clean. As a result, stocks piled up at the CCI, which held roughly 35 per cent of the 20 million bales of cotton in India.

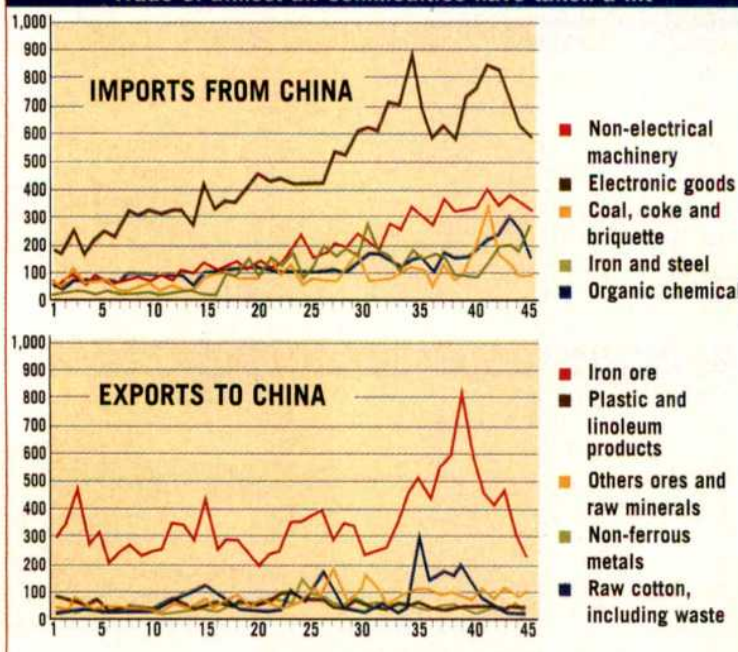
Slumping demand in India added to the overall gloom in the sector. According to the CCI's website, domestic sales of cotton in 2007-08 were down by 37 per cent to 815,946 bales from 1,294,673 bales in 2006-07. Given the scale of the slowdown in 2008-09, figures for the year are unlikely to bring any cheer when revealed. P.K. Agarwal, general manager for international trade at the CCI, could not be reached for comment despite repeated calls to his office.

No Child's Play

With demand from the recession-hit developed economies gone, the Indian government worries that China may now look at India to dump its sky-high inventories. So, it is somewhat surprising that India's imports from China have also declined, although at a lesser rate (19 per cent from January to October) than exports (65 per cent). Still, the spectre of dumping remains. "In a scenario of excess capacity, there is a danger of becoming a dump yard," says Nagesh Kumar, director-general of RIS, a Delhi-based think tank. "That is why (World Trade Organisation, or WTO) rules provide safeguards against dumping in precisely such moments." Of all things, it is Chinese toys that have created havoc.

DOWNWARD SPIRAL

Trade of almost all commodities have taken a hit



Each number on X-axis represents one month starting from January 2005 to October 2008.
Numbers on Y-axis represent value of commodity in $million

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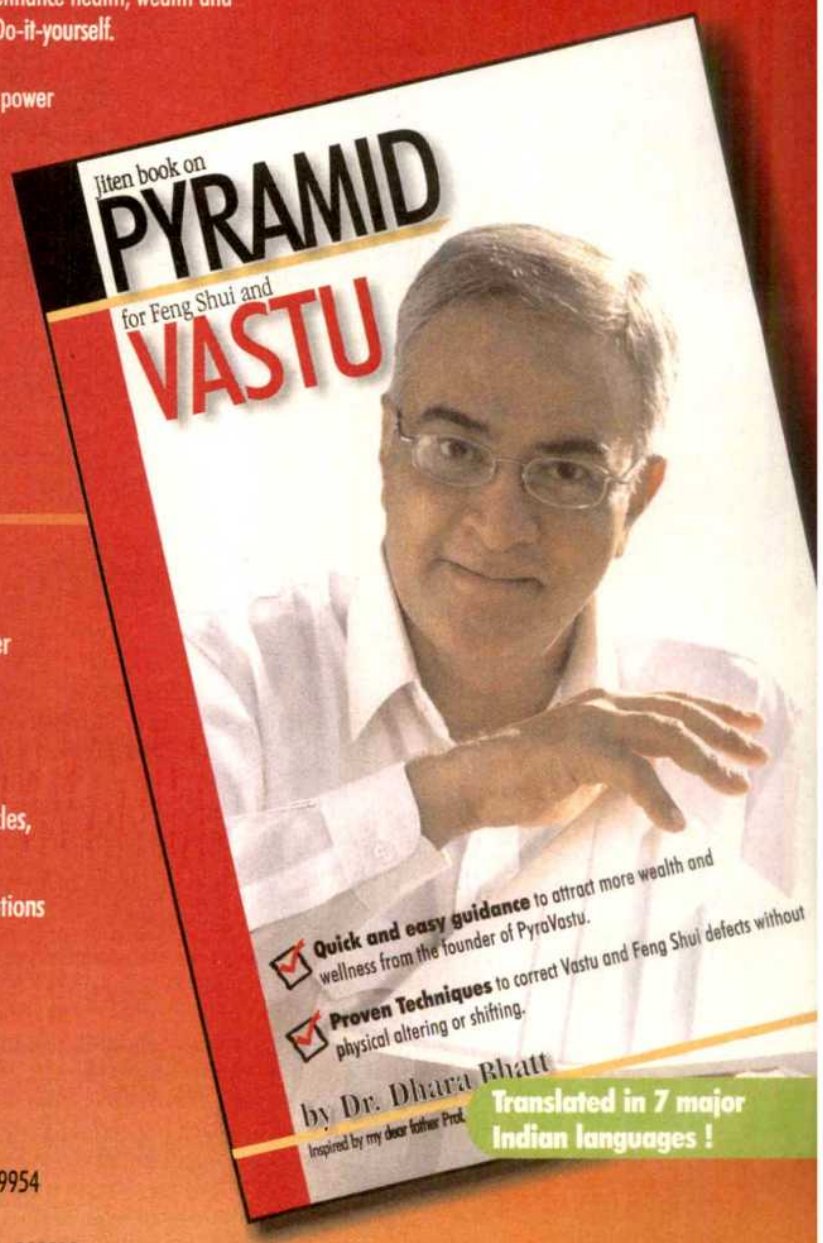

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BLOOMBERG

SHINY EDGE: Up to October 2008, India exported $3.7 billion worth of gems to the US, which has replaced China as the country's biggest trading partner in the third quarter of FY09

Having been banned in western countries over safety concerns, India alleges that Chinese toymakers are now dumping their products in India, leading to a ban on all Chinese toy imports on 23 January. India's Commerce Secretary G.K. Pillai says this was done to cease dumping and to protect Indian consumers from poor quality products. China responded by asking the WTO to declare the ban illegal.

But now, Indian toy sellers are unhappy with the ban. "Battery-operated Chinese toys are our bread and butter," says Bharat, a toy shopowner in Delhi's Karol Bagh who would not give his full name. Since the import ban came into effect, distributors of Chinese toys have started charging toy sellers up to 30 per cent more for these toys because the few remaining stocks are in high demand. Toy sellers say that no Indian toymaker has the technology to copy popular Chinese toys such as remote-controlled cars or battery-powered action figures because most of them had shut down their factories and started importing Chinese toys instead. "Once these stocks run out in two or three months, I have no idea what I will do," says Bharat.

Dumping of other products could kill smaller Indian manufacturers who already find it difficult to compete against the economies of scale that Chinese manufacturers enjoy. "Today, certain categories of auto components, textiles and glass look just as vulnerable as toys," says the CII advisor, suggesting that the Indian government may be looking at import restrictions on these items as well. "We do not want dumping here," says Pillai. "If there is a surge in imports at lower-than-normal prices, that would invite safeguard action." With official complaints against dumping taking 3-6 months to resolve in the WTO, Pillai feels this is the only option India has to immediately protect domestic industries, particularly fragile cottage industries.

Peng Gang, economic counsellor at the Chinese embassy in Delhi, says he is aware of the dumping and trade imbalance complaints, and is already "in talks with Indian officials on how to change the structure of goods being traded". However, Pillai wants actions rather than words. "If you do not give access to products where India is competitive, then we cannot believe it. It is not enough to say we will change the structure," he says.

The Show Must Go On

While the governments debate on tariffs and barriers, different people are looking at different ways of keeping things going. CAI's Uchil says that the association had requested the government to review the MSP of raw cotton, but it was not done. The mine operator *BW* spoke to has asked the government to cut rail freight costs, and reduce export duty on iron ore and congestion at ports — all of which add to the cost of exporting his product. Mukesh Goyal, a *feng shui* store owner in central Delhi's posh Khan Market, has decided to buy as many of his products from India as possible instead of China. He says that an unfavourable dollar-rupee exchange rate has made his imports 25 per cent more expensive than a year ago.

Still others are looking at alternative markets. Pune-based Elkay Chemicals, an importer of organic chemicals, is now buying more of its requirements from Germany, because while prices are the same as chemicals from China, German quality is better. "We believe this is a short-term issue until the recession is over," says a procurement executive of the company. "After that, things should be normal again." That is what a lot of people in India, including the government, will be hoping.

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Foreign Flows On The Rise

by Raghu Mohan

APPETITE FOR RISK

Despite the global financial downturn, outward remittances under the Liberalised Remittance Scheme show no signs of receding

Purpose	2004-05	2005-06	2006-07	2007-08	2008-09*
Deposit	9.1	23.2	19.7	24.0	17
Purchase of immovable property	0.5	1.9	8.5	39.5	42.9
Investment in equity/debt	NA	NA	20.7	144.7	98
Gift	NA	NA	7.4	70.3	98.3
Donations	NA	NA	0.1	1.6	1
Others**	NA	NA	16.4	160.4	271.3
Total	9.6	25.0	72.8	440.5	528.5

Figures in $ million, NA: not avaliable, **Include items such as education, tours and travels, *Up to November 2008

Source: RBI

Indians are investing heavily in equities and debts abroad

THE PATTERN OF INVESTMENT BY INDIANS IN FOREIGN countries — after the limit was increased to $200,000 in September 2007 — is evident in the figures released recently by the Reserve Bank of India (RBI). And the surprise is: contrary to expectations that most Indians were investing in real estate abroad, it is equity and debt that garnered the lion's share. At $144.7 million, equity and debt comprised a third of the total investments of $440 million in 2007-08. Realty was a distant third at $39.5 million, behind gifts at $70.3 million.

But given that markets abroad began sliding in 2007-08 itself, there is no discounting the possibility that several investors would have lost money. Om Ahuja, executive vice-president and country head for investment management at Yes Bank, agrees, but adds: "They would also gain on account of the fact that they can sell their investments and bring the proceeds in. The loss would be reduced to an extent as the rupee has lost ground since."

The rupee opportunity, it appears, was also used deliberately, explains Nipun Mehta, executive director and head of Societe Generale's private banking in India. "As the rupee started progressively weakening against the dollar from 42 levels, the well-heeled saw sense in investing abroad," he says. "If they were to sell their investments and remit inwards, they (would) also get more rupees as the local currency has gone down sharply." The rupee currently quotes at 49.89 to the greenback.

What is perhaps surprising is that in the first nine months of the current fiscal, investors are still investing heavily in equity and debt. Out of the $528.5 million invested till November, equity and debt ($98 million), and gifts (98.3 million) run neck-and-neck for the top slot. But investment in real estate has been steadily going down, from $7.7 million in April to $2.6 million in November.

The Liberalised Remittance Scheme (LRS), introduced in February 2004, permitted Indian residents to remit up to $25,000 per year for current or capital account transactions, or a combination of both. The limit was enhanced to $50,000 in December 2006, then to $100,000 in May 2007 and, finally, to $200,000 with effect from 26 September 2007. These have been made in line with the S.S. Tarapore Committee's recommendations on fuller convertibility.

And Indians seem to have utilised the opportunity to the hilt. The reason, explains Mehta, is that the sharp increase in the ceiling for such remittances within a year to $200,000 as on date meant that larger amounts could be used to invest. Agrees Sandeep Das, general manager for wealth management at Standard Chartered Bank (India), "RBI's decision to allow residents to invest abroad has given them a great opportunity to diversify their assets across countries, and they are making good use of this window."

The LRS has been a source of great business for banks that are into wealth management, especially foreign banks that are able to put their global platforms on offer for residents. Bankers say that going ahead, the pace of such remittances might slow a bit on account of the global downturn, and the consequent flight to safety.

And this, despite the fact the latest Merrill Lynch-Capgemini's Asia Pacific Wealth Report 2008 says that the number of high-networth individuals (HNIs) in the region grew by 8.7 per cent to 2.8 million and that of ultra-HNI jumped 16.4 per cent to 20,400; that the region accounted for 27.8 per cent of the world's HNI population in 2007 and ultra-HNIs accounted for 26.3 per cent of the region's HNI wealth. "While global economic conditions in the first part of 2008 had an impact on the Asia-Pacific region, HNIs are still optimistic about growth throughout the region, and are continually looking for new opportunities," the report observed.

The RBI remittance numbers read along with the Merrill Lynch-Capgemini report seems to suggest that some folks are recession proof.

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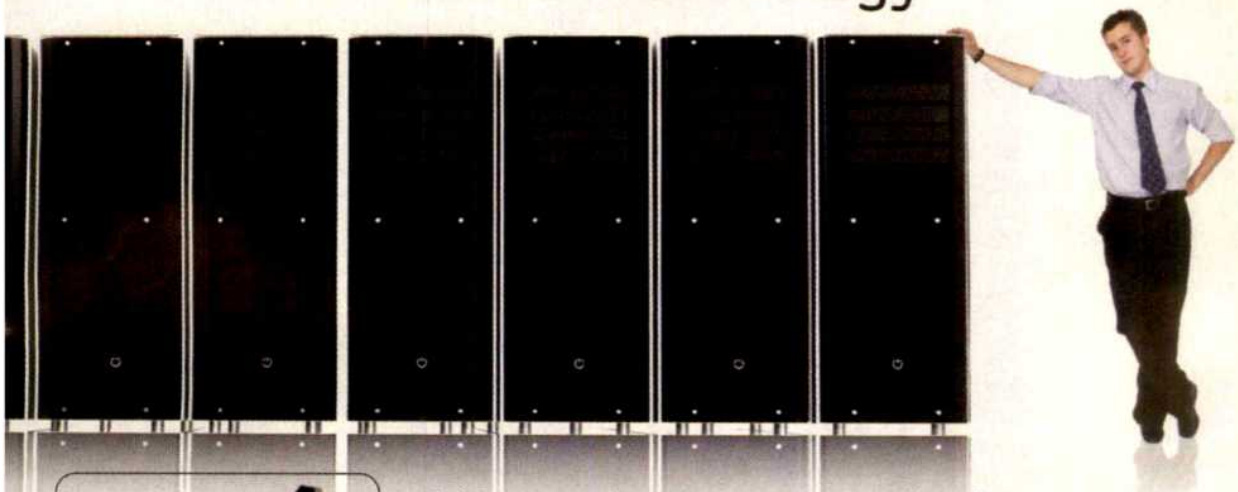

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VALUATION TROUBLE: Poor tenancy ratios and higher valuations could stretch payback periods for tower companies up to 15 years

Towering Problems

by Muthukumar K.

Expanding tower network is proving to be costly for telcos

INSANE PRICING AT THE PEAK OF THE STOCKMARket boom less than a year ago left telecom tower companies perched higher on the valuation charts than a few telcos. But now the economic realities of doing business have them struggling to match those lofty expectations. At the peak, the valuation of companies such as Reliance Infratel, pegged as high as Rs 27,000 crore in July 2007 — with towers that cost Rs 20-40 lakh each to set up priced close to Rs 2 crore — sparked off a wave of M&A deals in the telecom tower sector. Within months, Indus Towers, a joint venture between Bharti, Vodafone and Idea, was formed with its 70,000 towers getting valued upwards of Rs 1 crore per tower. Around the same time, Quippo bought 875 towers from Spice for a heady Rs 600 crore.

But now, ever since the slowdown hit the economy mid of last year, not only has the M&A fever cooled off, even valuations have dropped over 60 per cent from a peak of Rs 2 crore to barely Rs 80 lakh per tower (recent Tata-Quippo merger). Ironically, even though tower expansion is proving far too costly, telcos are finding that they cannot afford to halt their expansions.

Crossed Wires

Tower companies are now discovering that higher valuations, lower rentals and poor tenancy ratios could stretch payback periods up to 15 years. In comparison, most sectors have a payback period of five-seven years. "We believe that the return generated by 1-1.5-tenant towers, at current rental rates, is not enough to drive current valuations for tower companies," says James Taiclet, CEO of American Tower Corporation (ATC). Take, for instance, the SBA Communication-TowerCo Llc (US) deal and the Quippo-WTTI (India) deal that happened at an enterprise value of $451,163 and $151,817 per tower, respectively. When this is compared to the ballpark revenue per tower of $60,000 (Rs 30 lakhs) in the US and $10,000 (Rs 5 lakhs) in India, one would find that the payback period would be 7.5 years for the US buyer and 15 years for the Indian buyer. It costs approximately $250,000 to build a tower in the US, compared to $70,000 in India, says Manoj Tirodkar, chairman of GTL Infrastructure.

Interestingly, unlike in the US, where independent tower firms such as ATC and SBA Communications own 60 per cent of towers, in India, telcos dominate with 90 per cent market share. This is the root cause of lower tenancy ratios, which is the number of clients a tower firm is able to bring on board to share its infrastructure.

The lease rentals are not encouraging either. "We have to cope with lower lease rentals," says ATC's Taiclet. "Currently, it is $10,000 a year in India, almost one-sixth of that in the US." While industry estimates the requirement of 6,70,000 cell sites by March 2011 — which neatly fits the planned tower population of 3,40,000 to give the preferred tenancy ratio of 2 — not all is hunky dory (see 'Future Shortfall?').

It is a vicious cycle. Lower rentals cause lower tenancy ratios. On an average, depending upon the technology, anywhere between two and four tenants can be accommodated in one tower. The tenancy ratio in India is between 1.2 and 1.4 per tower for most players compared to 2.6 per tower in mature markets such as the US. A tenancy of two is needed to be profitable on a sustainable basis. GTL today has a tenancy ratio of 0.9 and is making losses. However, a tenancy ratio in the range of 1.2-1.4 for Reliance Infratel has already made it profitable. Analysts attribute this to lower depreciation charges and higher-than-market rental rates charged by Reliance.

Telecom operators-owned company Indus Towers has three 'anchor' tenants and is better placed among all the players. "Presence of an 'anchor tenant' (the parent) gives a tenancy ratio of at least one right at the start, while independent tower firms have to start with a tenancy ratio of zero," says Harit Shah, telecom analyst with Angel Broking. For Indus Towers, the tenancy ratio is now a fabulous three.

FUTURE SHORTFALL?

The demand for cell cites is almost double than what the tower companies will be supplying by FY2011

DEMAND

Demand for various operators by FY2011

Operator	No. of sites*	Operator	No. of sites*
Bharti	113	Tata Tele.	51
BSNL	102	Aircel	29
RCom	90	Others	16
Vodafone	82	New operators	120
Idea	67		
TOTAL			670

SUPPLY

Towers expanison targets for Mar 2011

Company	No. of towers*
Indus Towers	140
Reliance Infratel	75
Bharti Infratel	41
Quippo-WTTI	40
GTL Infrastructure	23
TOTAL	340^

*All figures in thousand;^the figure includes tower expansion targets of other companies

DOUBLE TROUBLE

In boom times, M&As in tower business happened at twice the actual cost

	ACQUIRER-TARGET	EV^/TOWER	VALUE/COST#
	India		
Jan '09	Quippo-Wireless Tata Telecom	151,817	2.2
Jan '09	Wireless Tata Telecom-Quippo	127,750	1.8
Dec '05	SREI Infra. finance-Spice Com.	145,143	2.1
	USA		
Mar '08	SBA Communications-TowerCo	451,163	1.8
Jan '07	Crown Castle-Global Signal	528,089	2.1
May '05	American Tower-Specrasite	492,264	2.0

EV: enterprise value;#The ratio of deal value and actual costs; ^figures in dollars
Source: Industry reports/*BW* research

A Rural Footprint

Moreover, "as the ARPU (average revenue per user) and incremental revenues from under-penetrated circles fall (they are expected to be Rs 150 in rural areas compared to Rs 200-250 in urban areas) costing becomes crucial," says Pankaj Joshi, vice-president, M&A, at Singhi Advisors.

Erratic power supply, non-availability of personnel to man cell sites and poor infrastructure could make tower management even tougher in rural India. Parallely, the Universal Services Obligation Fund (USOF) scheme, which was supposed to subsidise rural roll out of towers, has been hit by competition as companies resort to negative bids (without the subsidy).

While BSNL, Tata and Airtel could outsource at least 50 per cent of their network requirements, GTL already has Vodafone, RCom, Airtel, BSNL and Aircel as its customers. Then, new operators such as Loop Telecom, Swan Telecom could drive further demand. But, "these new operators are just looking at the telecom business as a financial investment and will soon cash out," says Yogesh Kirve, financial analyst with Anand Rathi Securities. Necessity, it would seem, is sometimes the mother of prevention.

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Bold & The Bountiful

by Sreevalsan Menon

Marico hopes to bridge slowing demand with growth

BEHIND THE BRIGHT SMILE, MARICO INDUSTRIES Chairman Harsh Mariwala seems to hide his anxiety about the biggest test to his company: the worsening economic slowdown. True, a slowdown is less harsh on the 'defensive' fast moving consumer goods (FMCG) industry; but Mariwala's attempt to transform his brainchild into 'a beauty and wellness' company faces additional risks — and possibly big rewards — in the acid test of what may soon be a recession.

"The FMCG sector has had somewhat muted profit growth," says Mariwala. "The danger of contagion (from developed economies) continues. The biggest challenges for us are inflationary pressures on input costs and the decline in disposable incomes and consumer confidence."

Marico has gained a significant foothold in a business largely dominated by multinationals. Mariwala built a huge market around two products: Parachute, the branded coconut oil and Saffola, the branded edible oil positioned as a 'healthy' alternative to the unbranded variety. He then differentiated these with improved product offerings, variants, brand extensions and packaging innovations.

Parachute commands a 48 per cent market share by volume in a Rs 1,300-crore market, of which another 6 per cent was gained by acquiring Nihar from Unilever. Revenues from Parachute in 2007-08 were Rs 620 crore. Saffola, accounted for Rs 286 crore in revenues for 2007-08.

Brand extensions include Parachute Jasmine, Parachute Advanced Starz, Nihar perfumed hair oils, Hair and Care and Shanti Badam Amla in the hair oils segment, which grew at 20 per cent in the 2006-08 period; their revenues were Rs 198 crore in 2007-08. In edible oils, there are Saffola function foods for diabetes and cholesterol management.

But despite continued growth in the first three quarters of this financial year, the future looks less certain. Marico's traditional cash cows are under pressure, and the competition — which includes Dabur and Godrej, among others — is heating up.

New Ambitions

Mariwala was always clear that he would expand Marico's portfolio. In December 1992, he ventured into an area which FMCG majors had already experimented with: beauty and wellness, attempting a value added services model with Kaya skin care centers (Unilever has Lakme and Ayush in this segment). The goal was to convert Marico into a beauty and wellness company that would not be a victim of brand and price wars.

The Confederation of Indian Industry (CII) estimated the size of the beauty and wellness market at approximately Rs 12,500 crore. So the move to launch Kaya (body in Sanskrit) skin care seemed a gamble that could pay off. Riding the consumer boom of the past three years, Kaya Skin Care has become a brand with substantial recall in urban areas, making maximum progress in 2006-07. Kaya operates 73 owned clinics, each with an average capital investment of Rs 1.5 crore. With revenues of just over Rs 100 crore in FY08, sales were

PHOTOGRAPHS: SATHEESH NAIR

WELLNESS THERAPY: Kaya Skin Clinic is part of Marico's more ambitious plans

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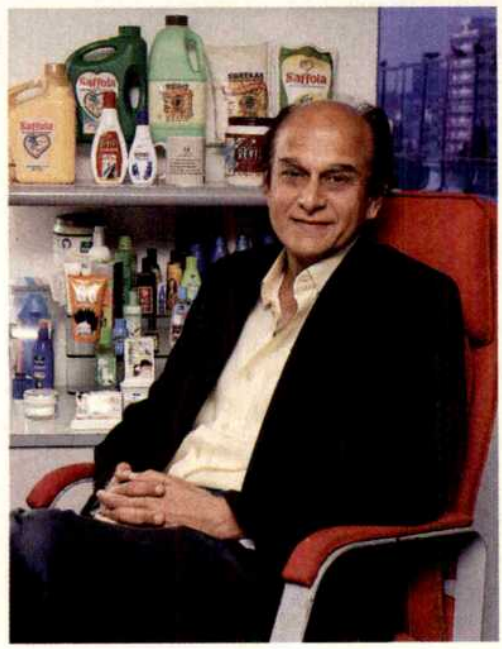

STILL BULLISH: Harsh Mariwala, chairman, Marico Industries

Rs 41 crore in the third quarter of FY09.

Marico's international business is about 18 per cent of total revenues. Mariwala has expanded into Bangladesh, the Middle East and Africa both with existing products and making regional acquisitions Fiancee and HairCode — hair washes, basically — account for Marico's major business in Egypt.

But the global recession has had its impact. Apart from falling consumer spending, it has increased input costs. It now poses serious challenges for the next few quarters that Marico cannot afford to ignore.

Oil Slicks Galore

Marico's biggest revenue earners Saffola and Parachute already suffer from substitution effects — customer can turn to cheaper versions when cash is limited. Sales of Nihar, which should have boosted coconut oil revenues, fell on the back of a 15 per cent price hike. The competition is getting tougher too — Dabur is aggressively pushing its amla oil, Vatika. Whereas Marico's new launch in hair oil last year, Maha Thanda, has been disappointing.

With most edible oil prices falling and price of kardi, a key ingredient in Saffola, on the rise, Saffola suffered a 3 per cent drop in sales volume in the quarter ended December 2008.

The largest edible oil refining company, Adani Wilmar and ConAgra, are also competing hard for market share with their Fortune and Sundrop brands respectively.

Hair-raising?

The other cash cow, Parachute, seems to have hit an inflationary air pocket. Higher copra prices means further price revisions (already up 13 per cent in 2008) at a time when customer is seeking alternatives. As in Nihar's case, it will directly impact volumes.

Anand Shah, an analyst at Angel Broking in Mumbai, says rising copra prices, the capital-heavy rollout of Kaya Skin Clinics and consolidation of its South African acquisition where it faces lower margins, may dent Marico's revenues going forward.

Falling discretionary spends will hit Kaya Skin Care too, with its high fixed costs and reliance on growing volumes. However, says, Rakesh Pandey, Kaya's chief executive officer (CEO), Kaya has grown more than 50 per cent this quarter amid the slowdown. "The focus of our customers is still on value and not on price. Even unorganised players of repute are similarly priced," he adds.

HUL recently transferred and franchised around 120 Lakme Beauty Salons and 40 Ayush Therapy Centres to a new subsidiary, Lakme Lever. Both H.K. Press, executive director of Godrej Products, and Harsh Agarwal of Emami consider the heavy capital costs, particularly lease rentals and real estate, a big disadvantage.

International operations too are exposed to the vagaries of economic troubles gripping almost every nation. Abhijeet Kundu of Antique Stock Broking warns that inflation at upwards of 20 per cent, especially in markets such as Bangladesh and Egypt, make Marico's products range more expensive. Besides, a very small amount is earned in dollars, so the exchange rate is no advantage either.

True, Marico will have to continue to grow beyond Parachute and Saffola. "Our challenge is to maintain 30 per cent plus growth amid the slowdown and we are banking on Revive, renovations in the pipeline, hair oils and few more acquisitions," says Mariwala. But trying to fix skewed revenue may have to slow for now; as Milind Sarwate, chief of HR and strategy says, Marico may have to support existing brands in times of uncertainty. Parachute may have to live up to its name in giving Marico a soft landing in a recession.

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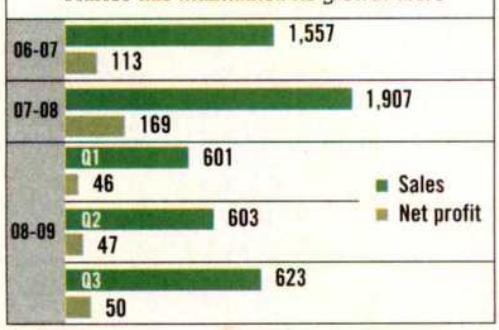
STEADY PROGRESS

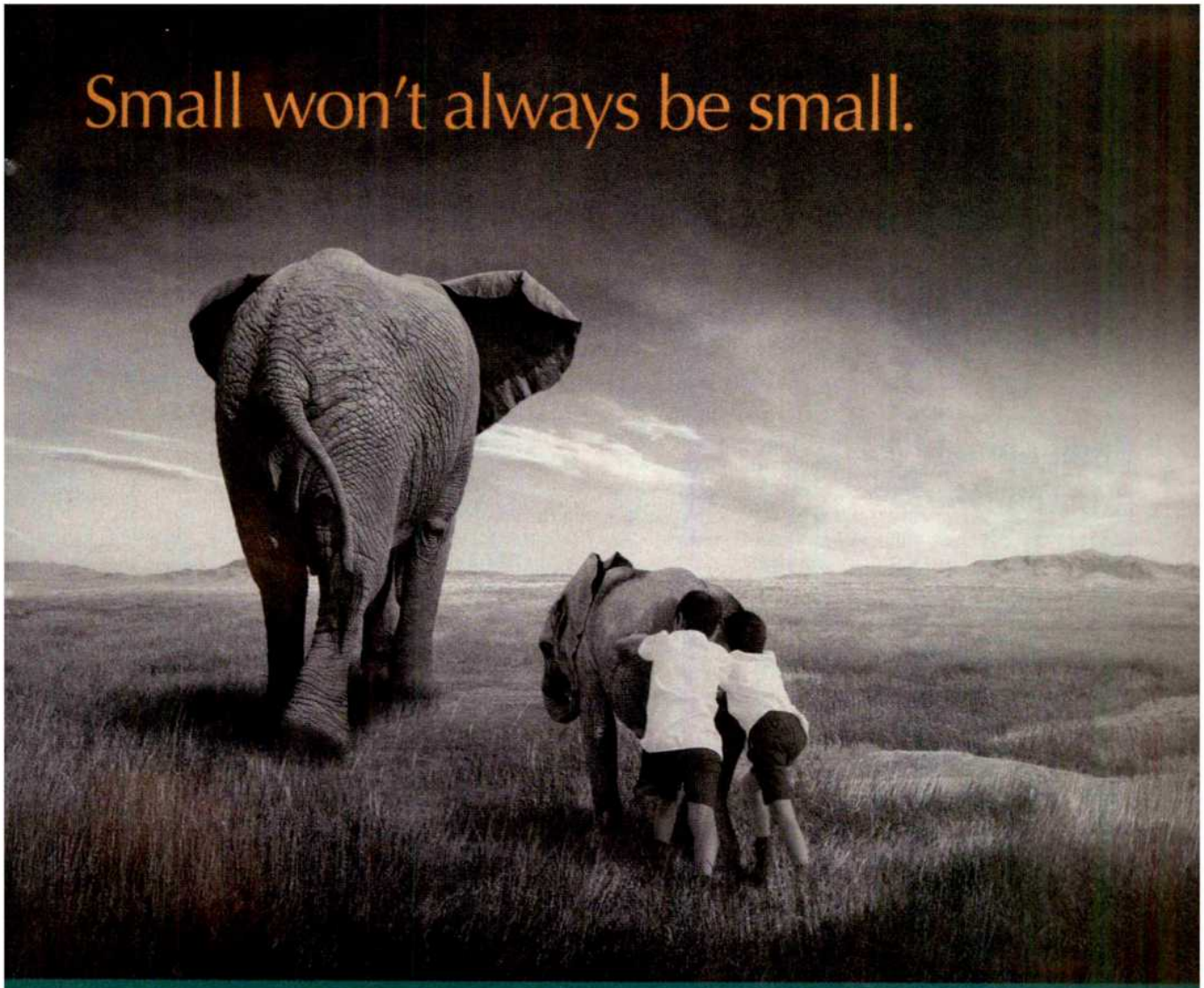
Marico has maintained its growth drive



Figures in Rs crore

Source: Marico

Small won't always be small.



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Protectionist Attitudes

by P. Hari in San Francisco

Companies in the US will find it tougher to recruit H1B holders

LIKE MANY OTHER IT STAFFING COMPANIES IN THE US, the Silicon Valley-based Akraya Inc. hires several H1B visa holders every year. These engineers are generally more flexible about their placements than US citizens or Green Card holders, and flexibility is vital to the staffing business. However, the company management held a long meeting this week, and decided to do something it has not done in its seven-year history: it will not apply for any H1B visas this year when the process opens on 1 April. "We decided that hiring an H1B is hard to justify in the current circumstances," says Amar Panchal, CEO of Akraya.

Companies that sponsor H1B visas — staffing companies, large Indian IT companies, US and multinational high-tech companies — see a tough period ahead this year even though there are 65,000 H1Bs available for those who do not get enough US workers in specific fields. As a result, H1B applications this year are likely to be lower than last year. But lack of jobs in an economy in recession is not the only reason for the poor demand for H1B visas. The Barack Obama administration has been sending signals that it is not in favour of companies employing H1B workers at least until the economy recovers. In the economic stimulus bill that Obama signed late last week, there was a provision that companies that received federal assistance should hire H1B workers only if they can prove that US workers were not available. The direct impact of this provision on IT companies would be minimal because there was no ban on contracting any work to a company that employed H1B workers. However, it sent a strong signal about the thinking in the current government, which could translate into hurdles once the application procedure begins.

Growing Resistance

In the past few months, many engineers who had not immediately stamped the H1B visas on their passports for last year had faced increased questioning and scrutiny. Some of them had been asked to provide detailed documentation about their proposed projects in the US, failing which their passports were not stamped. IT companies expect such pressures right from the application stage this year. H1B visa applications will be scrutinised more thoroughly, and stronger documentation will be required to substantiate the lack of availability of US workers. Even Green Card applications are now likely to

PHOTOGRAPHS: BLOOMBERG

STRONG OBJECTION: Senators Chuck Grassley (left) and Dick Durbin argue that jobs should be given to Americans rather than foreigners

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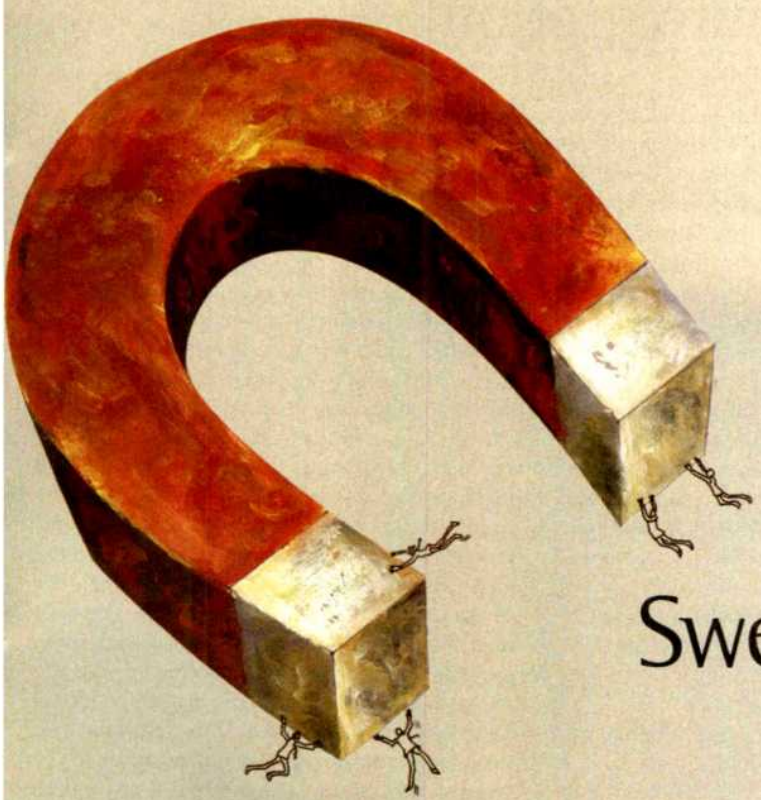

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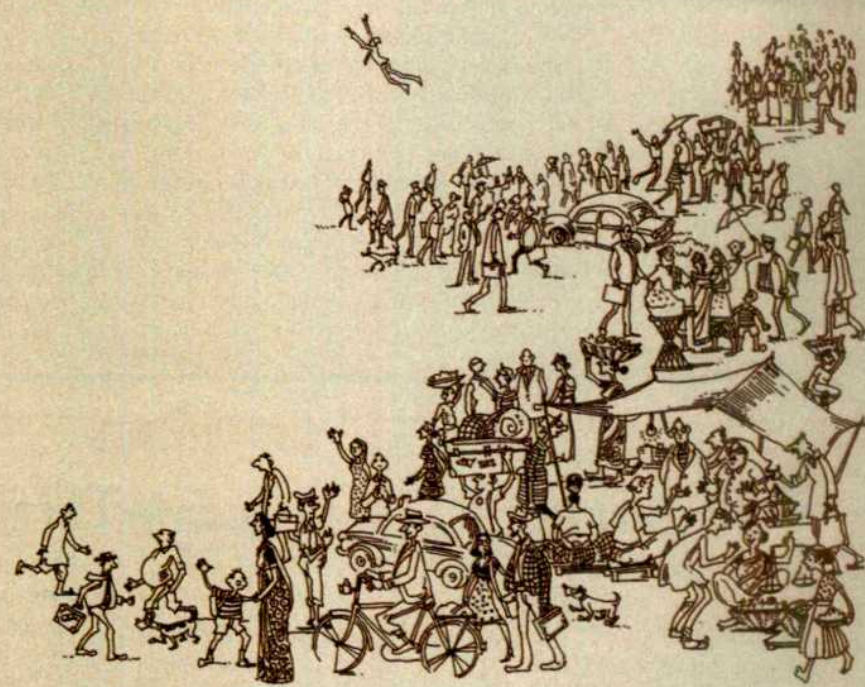

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Reasonable Argument?

- **The 65,000 H1B visas available from 1 April are likely to find fewer takers.**
- **A new Bill proposes to tighten rules on hiring immigrants.**
- **A crackdown on fraudulent visas is expected after the immigration authorities arrested 11 Indians on such charges.**

get increased scrutiny. Nothing is, of course, official because there have been no statements yet on the H1B issue from the US government.

The government's recent crackdown on H1B fraud illustrates its toughening attitude. Four months ago, the US Citizenship and Immigration Services (CIS) produced a report that said 21 per cent of H1B visa applications were fraudulent. Two weeks ago, CIS and the Immigration and Customs Enforcement together cracked down on the IT services firm Vision Systems Group in Iowa for fraudulently bringing people on H1B visas into the US. Some were brought in through fraudulent documents, some for jobs that did not exist, and some others for less than current market wages. The officials arrested 11 people in six states, all of them Indians.

Observers think that the crackdown and further revelations will adversely affect the H1B visa programme in the near future. There have been arguments in the Senate, both in favour and against the programme, and a change was tied to a comprehensive immigration reform. It was to be one of the top priorities of the Obama administration (to be taken up in the first 100 days), but the recession has forced that aside for the moment. The main issue in the reform was to be about the 11 million illegal immigrants in the US, mostly from Mexico.

Reforms And After

The H1B visa reform is unlikely to happen this year as many illegal immigrants are struggling to find jobs and are thus going home.

"Economic arguments in favour of immigration reform have now weakened considerably," says Muzaffar Chishti, director of the Migration Policy Institute at the New York University School of Law. Comprehensive reform would have taken a different look at skill-based immigration visas such as H1B and may have converted it into a points-based system like in neighbouring Canada. In the absence of a change in the system, companies would face increasing opposition from some politicians who have not been in favour of H1B visas.

Senators Dick Durbin and Chuck Grassley had introduced a bill in 2007 that would restrict the freedom of companies to hire H1B workers. This Bill would come up for discussion sometime this year. Although both are sponsors of the Bill, the two differ on their agenda. Grassley favours a reduction or even total elimination of the H1B visa system, but Durbin is primarily against abuse of the system. Durbin is one of the most influential people in the current administration, and is very close to Obama. Grassley was also instrumental in introducing the H1B provision in the economic stimulus Bill.

Despite all these difficulties, technology companies in the US still favour an increase in the quota of H1B visas every year. An H1B worker brings an advantage that a permanent resident does not have: mobility. Most H1B visa holders are young and do not mind moving around the US once every year or less. Permanent residents are usually more settled in their habitats, and are thus often unwilling to uproot themselves periodically. "Many IT projects last only six to eight months," says Panchal, "and it is too expensive and impractical to retrain a person on a new technology after the end of every project."

Mobility apart, companies — in cutting edge areas — cite a shortage of engineering talent even in the current recession. These companies say that US has not invested enough in engineering education. The US produces at the most 100,000 engineering graduates a year compared to India's 400,000. A US Chamber of Commerce study three years ago had said there would be a severe shortage of engineers in the country by 2012. "The US is eroding its competitiveness by simultaneously not investing more in engineering education while also restricting access to global talent," says Sridhar Ramasubbu, chief financial officer (Americas) of Wipro. This shortage may be felt even during a recession in certain areas of technology.

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'Securitisation is still good'

—Laurence D. Fink
Chairman and CEO, BlackRock

SATHEESH NAIR

NEW YORK-BASED BLACKROCK, THE WORLD'S largest listed asset management company, has been entrusted with the task of utilising a chunk of the $700-billion bailout package to clean up toxic assets from the balance sheets of companies. BlackRock's valuations of the bad assets is considered to be the final word at Wall Street. However, the $1.3-trillion BlackRock has its own horror story. Its money market funds shrunk by $50 billion after the Lehman Brothers collapse. Its stock also lost over 40 per cent in 2008. Its chairman and CEO, Laurence D. Fink, who as a bond trader popularised the concept of collateralised mortgage obligations (CMOs), now has to clean up the mess in which he had an inadvertent role. He talks to *BW's* Sreevalsan Menon about the global downturn, capitalism and his joint venture, DSP BlackRock Fund Managers, which has assets worth Rs 13,970 crore under management. Excerpts:

Q: Your idea of mortgage-backed securities is wreaking havoc in global markets. What went wrong?

A: Even today, securitisation is a very good and powerful tool. When we started securitising and created CMOs, we actually helped institutions manage their businesses well. However, mortgage securities are risky as they are very interest rate sensitive. Majority of the securities were secured by Freddie Mac and Fannie Mae. It benefitted homeowners who got better funding. So, I am proud of what we created in the early 1980s. As interest rates started coming down and money became available, the marketplace took these ideas and went beyond prime mortgages — to credit mortgages and other products. It provided mortgages to people with no credit history and insufficient cash flow. In short, people took a good idea and made it into an ugly business. We are going to get out of this problem by re-securitising many mortgages into fine loans.

Q: Do you think capitalism is dead?

A: Capitalism was dead in 2004, 2005 and 2006. Now, we are actually trying to fix the greed and excesses of capitalism. During the bubble period, some Wall Street firms were overleveraged. People were leaving their jobs to start hedge funds, and many gave them money. So, it was not because we created a CMO or an asset-backed security in 1983, it was because they used the basic structure and created a monster.

Q: Do you feel responsible for it?

A: I don't think I am responsible for the mess. If Larry Fink and BlackRock were responsible, I don't think we would be here growing as a firm and working with so many governments to understand the risks and the balance sheets of these institutions. You are the first one to ask me whether I feel I am responsible.

Q: How effective is the Troubled Asset Relief Program (TARP)?

A: We don't know much about the latest TARP created by Treasury Secretary (Timothy) Geithner and President Barack Obama. About George Bush's TARP, I think we would have been a lot worse off if we did not have it. After Lehman Brothers, the world would have been a troubled lot. Unfortunately, we did not do enough. TARP did not start buying toxic assets on time. Instead, it spent a lot of time buying into equities of these failed institutions. The Congress is now yelling at the CEOs — why aren't they re-lending? The debt markets actually fell more than equity markets. Everyone thought TARP is going to buy these toxic assets and that did not happen. Since November, equity of many institutions has collapsed, and they continue to fall since we have not stabilised their assets. So, it is very important to respond rightly.

Q: You believe that those who are withholding cash might gatecrash soon and at that point, markets would look up. What's the reasoning?

A: I am not saying all this is going to work. But there is a high probability of this working out. If the Obama-Geithner plan brings in stability, then confidence will return and things will improve. Homeowners are going to see refinancing of their mortgages. We might see a huge pool of liquidity leaving the stable to longer date bonds and equity markets. That will be the beginning of a good-sized rally. That is a possibility. If economic plans and stimulus packages work in tandem, they can rapidly consolidate some of the troubled institutions. And we will be talking of recovery in the third quarter (FY2009-10) itself.

Q: China and India are growing and so their markets have better chances to lead this recovery. What is BlackRock's take on this?

A: I am not an expert on these markets. My perspective is that India represents a major opportunity, and it is a good market to get into at the entry level. PE ratios are between 10 and 12 per cent, which are very low for a nation with 6 per cent GDP growth. Something seems to be wrong — either the GDP is not 6 per cent or the equity markets are very cheap. Investors around the world are happy to invest when the PEs are low and the country is growing steadily. However, if the GDP is growing at 6 per cent, how can the corporate earnings be so low? Since 65 per cent of the economy is pointed towards domestic usage and less towards the world, and there is no great connectivity (like China's dependency on exports), India could be one of the markets where growth will be spontaneously in line with the recovery.

Q: We have seen foreign money moving out of the Asia markets. When will the reverse happen?

A: If the housing sector stabilises in the US, the consumer will feel more confident about spending. This will fuel growth. Markets will go up and commodities will get better prices. Trillions of dollars are sitting in money racks and if investors are confident, they will start investing.

Q: BlackRock seems to be the biggest beneficiary of the clean up.

A: Many firms are doing this but we are a bit more visible. It might be that we are doing a very good job and the Fed recognises that. We are doing advisory services for the US government and also investing for people since BlackRock is one of the largest investment managers in the world. We have been advising many governments in the Gulf, Europe and Asia, helping them navigate their balance sheets through the turbulence created by toxic assets. We have firewalled close to $100 billion assets out of AIG and Merrill. Some of the mortgage assets are historically inexpensive, but people are unwinding their positions out of concern. We think it is a great opportunity.

Q: What are the lessons to be learnt from this global downturn?

A: The biggest lesson is that we need to be more careful during a bull market than a bear market. You should be expanding your business when the bear run starts. One can understand one's risk then. The biggest mistake of recent times is the belief in liquidity and bullishness being permanent. Many investors are losing heavily today despite having invested thoughtfully because they never considered liquidity as a risk. The same goes for institutions that invested in assets that have turned highly illiquid now.

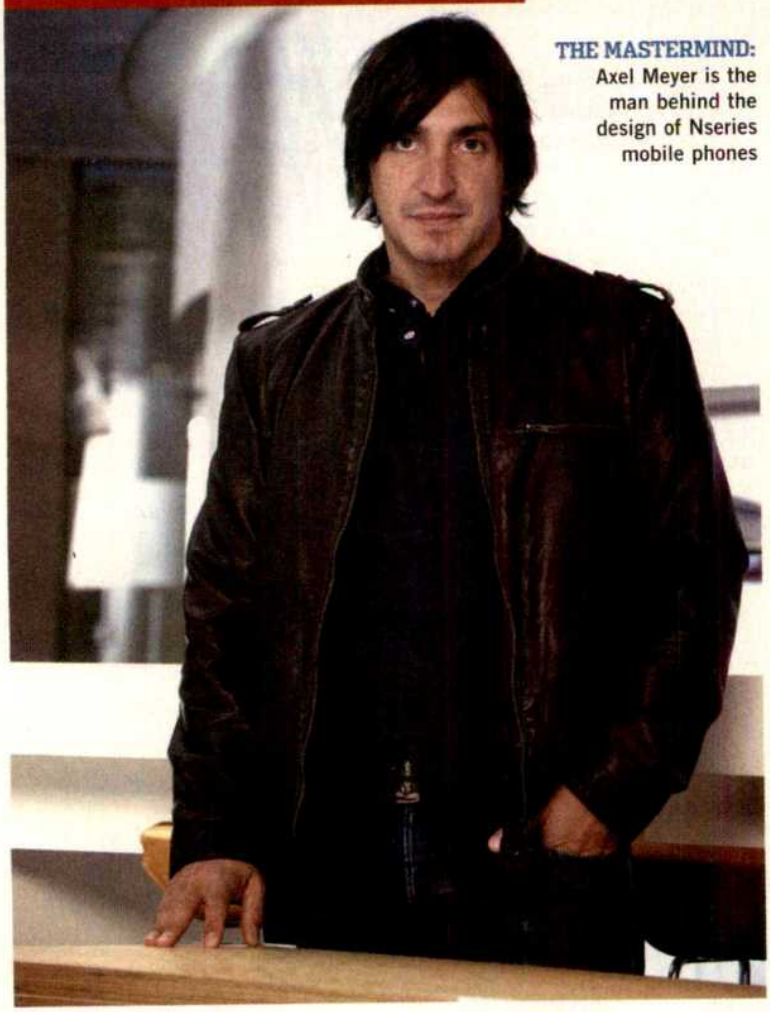
Fast Facts

Established
In 1988 as Blackstone Financial Management; Renamed BlackRock in 1992

Assets under management
$1.31 trillion as of 31 Dec 2008

Headquarters
New York, US

Promoters
Bank of America: (49 per cent), PNC Financial Services Group (33 per cent), the remaining 18 per cent are with employees



THE MASTERMIND: Axel Meyer is the man behind the design of Nseries mobile phones

Nokia's Dreamer

by M. Rajendran

Meyer's Nseries design signalled a brand makeover

STANDING NEXT TO THE DRAWING BOARD AT HIS fifth floor London office, Axel Meyer closes his eyes for a few minutes, recalls the dream he saw, then strokes a powerful line that would eventually be the phone you and I aspire to purchase. That, in a nutshell, is how Meyer, 41, the head of Nokia Explore Design, conceives the outline of a new mobile phone. And it is not a bad process; after all, it has resulted in the design of Nokia's highly successful Nseries phones.

For much of his childhood and teen life, though, the master designer actually wanted to be an archaeologist. Until he met a man — father of his first girlfriend and, 15 years later, his wife — who was designing a utilitarian pickup car for the Argentine market. "I found that design by him really inspiring, and it helped shape my career in design," says Meyer. Four years later in 1990, armed with a degree in product design from Universidad de Buenos Aires, Argentina, Meyer — the son of a businessman father and a psychoanalyst mother — started working as a freelancer. He designed anything that would make life easier and aesthetic for people, including a bizarre street-tiles concept for the city of Hague in 1993. After working with Philips Design in Eindhoven for six years (1994-2000), where he helped design its first mobile phone among other products, Meyer moved between Argentina, Belgium and the Netherlands, fulfilling the dreams of others as a consultant. "I flirted with lots of ideas and dreams, and that helped me learn a lot as a designer," he says.

When he landed a job at Nokia in early 2002, it was a dream come true for Meyer. By May that year, he was given responsibility for the Nokia Nseries design portfolio, in which the N90 was the first. And because the N90 was the first phone of the series, designing it was a challenge. "We wanted to capture life and wed it with technology, like taking pictures and sharing with others," says Meyer. But for a man who believes that every creative challenge or friction produces a better result, it was a challenge easily overcome. "Problems make us think differently and challenge perceived wisdom," he says.

He then went on to design the N95 and the N7600, "the square one, which was a fashion device and quite a hit", he says. Meyer also headed the Nokia Design team in Oulu, Finland, during that period. His designs can be bizarre, like a mobile with a funky keyboard that lights up as you touch a key, stumping the engineers and sales guys; it never got launched at that time, though. "We let our imagination go wild while designing," says Meyer.

Imagination plays a big role in Meyer's designing of Nokia phones. He day-dreams of people in beautiful situations, such as a candlelight dinner, a high school graduation ceremony, or meeting a long lost friend. Such dreams, he says, influenced the design of the N96 as well as N97 phones as they represent how people sleep, wake up, listen to music, play and romance. These days, he also dreams of things from everyday life. "I imagine how people behave in nature, react, feel and touch," says Meyer. Not surprisingly, the next Nseries phone he is working on would "join the virtual with the real world", he says. We will wait for that one.

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TREND

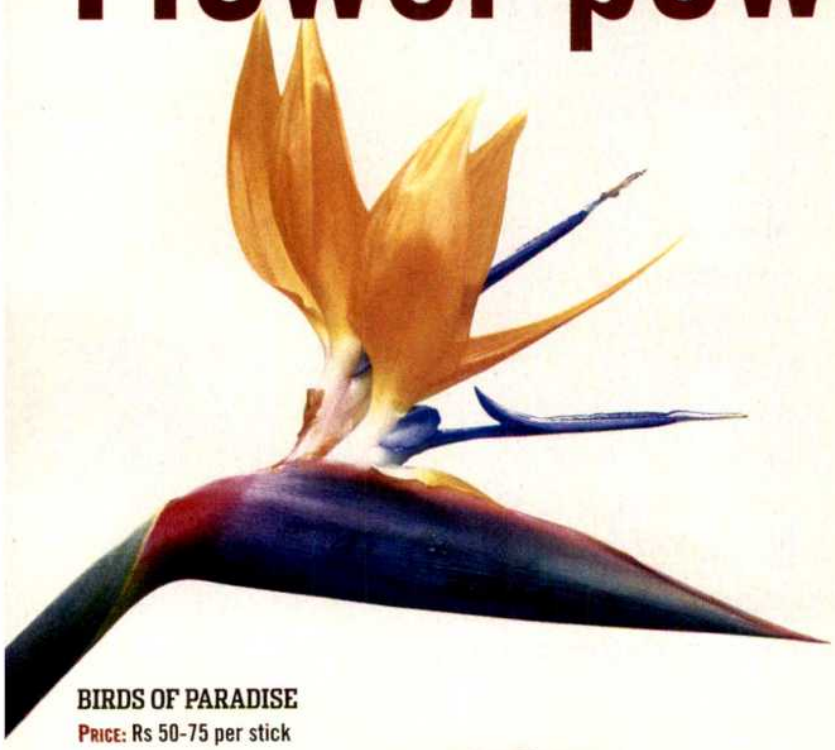
Flower power

CYMBIDIUMS, ANTHURIUMS, PROTEAS AND HELICONEAS. Exotic flowers from exotic locales. Delicately packed in temperature-controlled boxes, they land from as far off places as Africa, Australia, New Zealand, Bangkok and Malaysia to adorn the tables and boudoir of style icons. Exclusivity comes at a price, and at Rs 800-1,500 per stem of, say, cymbidium, an arrangement with a single stem can cost up to Rs 3,000.

According to Vikaas Gutgutiya, managing director of Delhi-based Valayafnp, a local industrialist recently spent Rs 10 lakh on exotic flower décor at a family wedding. That's a steep premium over the Rs 50,000 that basic arrangements at garden parties bring in. Some don't wait for parties, they like to keep imported, hardy varieties at their home which are rotated on a weekly basis, at a cost of roughly Rs 10,000 every month.

Pretty gladiolas and petunias can now be seen even in banks and schools. "Most of my clients are banks. They want to make their premises look attractive," says Sania Sharma, a Thane-based Ikebana artist and florist.

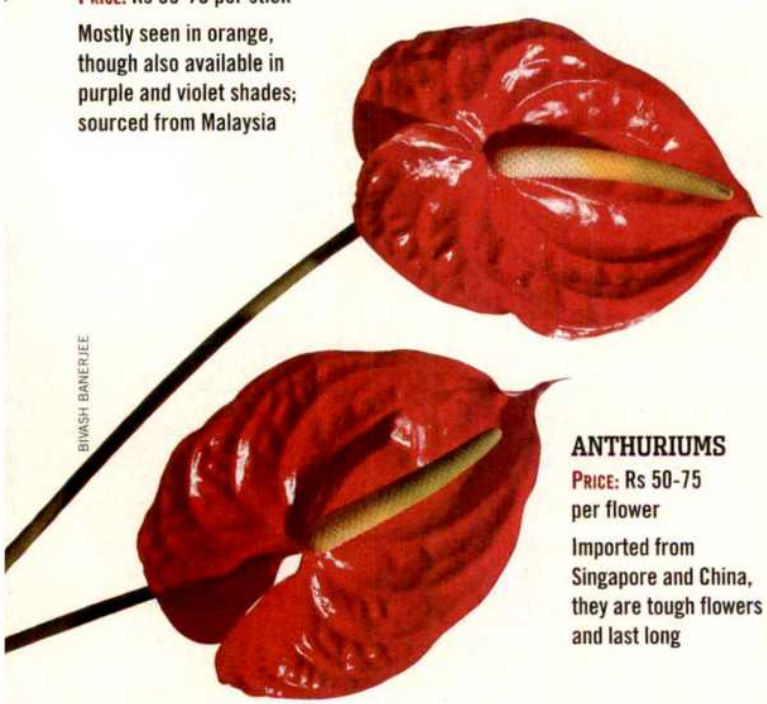
By Shalini S. Sharma and Janhavi Abhyankar



BIRDS OF PARADISE

PRICE: Rs 50-75 per stick

Mostly seen in orange, though also available in purple and violet shades; sourced from Malaysia



BIVASH BANERJEE

ANTHURIUMS

PRICE: Rs 50-75 per flower

Imported from Singapore and China, they are tough flowers and last long

BRASSICA

PRICE: Rs 350-500 per flower

These cabbage-like blooms are imported from South Africa

TRIBHUWAN SHARMA

PRETTY EXPENSIVE
Fancy flower arrangements, particularly of exclusive flowers, can cost thousands

TRIBHUWAN SHARMA

TRIBHUWAN SHARMA

CYMBIDIUMS
PRICE: Rs 350-1,200 per stem
Imported from Australia and Bangkok. An arrangement with a single flower can cost Rs 3,000

TRIBHUWAN SHARMA

HELICONEAS
PRICE: Rs 300-700 per stem
Stems of this flower, which is imported from Bangkok, can grow as high as four feet

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DRINKS

The chill kill

TOUHIDUMAN CHADMA

WARNING: SCOTCH snobs who pursue single-malts need not read any further. For, we are talking about blends here — a blend of hot and cold, for instance.

Now, any scotch drinker worth his tulip tumblers would know that the refined way of consuming this slightly thick concoction is to drink it neat, without breaking the consistency with ice or water. But this way of drinking scotch seems to be truly for the Scots.

Whither aroma once diluted? Blame it on the tropical heat if you will, but Indians love to not just add water or soda to their scotch, but also like it on the rocks. And damn that rolling and twirling, rotating and sniffing.

Now if this numbing of taste buds with ice was not bad enough, Scotland's leading spirits company, The Edrington Group has launched a scotch which is meant to be served chilled.

The owner of the Famous Grouse brand of scotch has come out with a 100 per cent grain whisky named Snow Grouse that is supposed to be served straight from the freezer.

COOL SIP: Snow Grouse blended whiskey comes straight from the freezer

The drink is rather sweet and vanilla-like, and if it is something chilled you want, a mug of beer could prove to be a better bet.

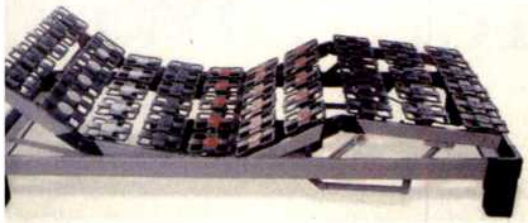
Shalini S.Sharma

Angel's Burden: A float shows Europe following in the wake of the 'angel' Barack Obama, US President, at a carnival in Dusseldorf, Germany.

AP

LIVING

Sleep on it



WE HAVE HEARD OF exotic beds — the four-posters of yester years are now back in fashion, and the splendid mahogany and leather beds can transport you to a different era altogether. But you are unlikely to have heard of the remote-controlled beds, which promise to take decadence to newer heights. If you like nothing more than a good night's sleep and have been dreaming of a bed that you could raise, lower, adjust underneath your feet or back at the touch of a button, then you have reason to rejoice. Tempur, based on technology developed and patented by Nasa, and Vitabeds, made by German firm Metzeler, are now available at leading stores across India.

Tempur, which features massaging and works through a wireless remote control, is made up of a number of spring elements not rigidly linked with each other. Each unit is separately adjustable, also through a remote.

COMFORT ZONE: The remote-controlled bed from Tempur

Vitabed operates via an electrically-charged remote, which can control different movements of neck, back, thigh and feet. The suspension ends mounted on the frame act as independent spring elements to hold the body in the most optimal position while sleeping. But if it is the family heirloom you would rather retire to, you could have these high-tech options fitted onto it to get comfort alongside old-wordly aesthetics. They seem to have thought of everything.

Still, it would be wise to check the state of your finances before you succumb. A single remote-controlled bed will set you back by Rs 58,000-1,00,000; a double will be twice that much. After paying that kind of money, you wouldn't want a sleepless night. Would you?

Shalini S. Sharma

TRAVEL

On a buying spree

OFFICIALLY, THE DUBAI SHOPPING FESTIVAL GOT OVER on 15 February but some late shoppers are still chasing travel operators for bulk bookings extending up to March. Agreed, there are more than 40 malls in the D-city that will obviously not close down after the festival and the regular camel and horse races are still on, but if shopping is what the undeterred-by-recession bravehearts want to do, then there are better destinations available.

Milan, the mecca for fashionistas, is buzzing with discount sales. And you find them all at one place too — Prada, Gucci, Ferragamo, Burberry, Tod's and Dolce & Gabbana. Most big labels have their factory outlets on the outskirts of the city where everything from shirts, skirts, knitwear, shoes, bags to belts and lingerie can be picked up for discounts as high as 70 per cent.

Paris is another place which can make even those averse to splurging loosen their purse strings. Apart from scouting the boutique outlets of Hermes, Yves Saint Laurent, Chanel and Versace, one can also stock up on exotic chocolates here.

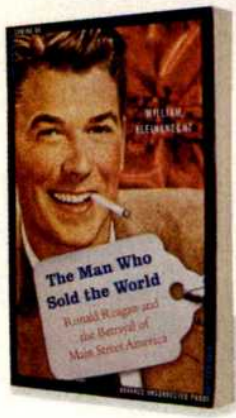
In London, brands such as Zara, Topshop and H&M, which though mediocre by European standards, are a hit with the Indian film stars and the chi chi set. They are great for hip clothes. But if the US suits your style better, then a visit to the world's largest department store Macy's in New York is a must. Outlets such as Woodbury Common Premium are offering discounts up to 60 per cent on designer wear.

Shop till you drop!

Shalini S. Sharma

PHOTOGRAPHS: BLOOMBERG

SHOPPERS' STOP: (From top) Shopoholics at Milan, London, Paris, Hong Kong; and a mall in Dubai



Tracing The Roots Of The Meltdown

by mahul brahma

THE MAN WHO SOLD THE WORLD: RONALD REAGAN AND THE BETRAYAL OF MAIN STREET AMERICA; BY WILLIAM KLEINKNECHT; PUBLISHER: NATION BOOKS; PAGES: 272; PRICE: $26

UNLIKE THE EARLIER FINANCIAL CRISES, THE CURrent turmoil has exposed ordinary people to the consequences of financial excess. And those who are most affected, the Main Street comprising ordinary citizens, as opposed to the Wall Street or High Street, have little or nothing to do with the meltdown. The crisis has called into question the fundamental axioms of financial market economics, such as the Black Scholes options pricing model or the Eugene Fama idea of perfect markets. In THE MAN WHO SOLD THE WORLD, William Kleinknecht says the buck stops at the man who started it all — Ronald Reagan, the 40th US president, whose mantras were free market, decentralisation, deregulation, privatisation and globalisation.

Reagan implemented his supply-side economic policies, dubbed Reaganomics. It had four pillars — reduce the growth of government spending, reduce marginal tax rates on income from labour and capital, reduce government regulation of the economy, and control money supply to reduce inflation. Reagan's ideas were welcomed as they came after a decade of stagflation, and where the role of government and its budget were getting too big. The question this book seeks to address is that perhaps in their zeal, Reagan's followers may have gone so far as to create conditions that have caused the present crisis. In other words, Reagan's ideas and policies, which have been the cornerstone of American economic policy for more than two decades, are now being called into question.

Kleinknecht feels that the financial deregulation in the 1980s freed banks and securities firms to squander billions of dollars and make a shambles of the economy. Boom-and-bust cycles, obscene CEO salaries, blackouts, drug-company scandals, collapsing bridges, plummeting wages for working people, the flight of US manufacturing abroad — these are all products of Reagan's free-market zealotry and his gutting of the public sector.

"Reagan was Illinois come to California. He was the wholesome citizen hero who inhabits our democratic imaginations," wrote Lou Cannon in Reagan's biography. The public rates Reagan as one of the most popular presidents, and the Republicans seek to cast themselves in his image. John McCain calls it "the party of Lincoln, Roosevelt and Reagan". Even today, numerous messages are regularly sent to his website Ronaldreagan.com, where people thank God for giving the US a president like him.

However, as New York journalist and author Joe Conason observes, Kleinknecht makes an attempt to "penetrate into the showbiz curtain to expose the venality and cynicism of the Reagan era, and explain why the crimes of that time still matter so much today". The real legacy of the Reagan presidency, argues Kleinknecht, was the dismantling of an eight-decade period of reform in which working people were given an unprecedented sway over American politics, economy and culture. Reagan halted this almost overnight. He and his ideological fellow travellers abdicated the government's regulatory role to oversee banking, manufacturing, telecommunications, media, mining and public welfare, leaving Americans without protection from the avarice of shortsighted corporations. While well-documented and forceful, the book has a strident tone that might put off the very people Kleinknecht tries to persuade: those who have lionised Reagan as the people's president.

President Barack Obama was elected on a platform that envi-

BROWSING
Yashish Dhaiya
Chief Executive, Policybazaar.com

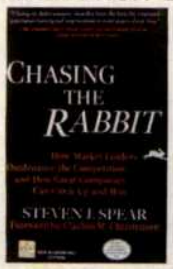
I am currently reading Tipping Point by MALCOLM GLADWELL. The book describes how some businesses reach the tipping point, which leads to unstoppable success. I am bored of the usual management books as none has new ideas. In that sense, science is fascinating and always throws up new stuff. I would recommend *The Black Swan* by Nassim Nicholas Taleb because it takes a very good look at risk, and also *A Brief History of Nearly Everything* by Bill Bryson.

WILLIAM KLEINKNECHT is a veteran reporter and crime correspondent for the Newark-based *Star-Ledger*. He has won awards from the Associated Press and the American Society of Professional Journalists, and has contributed to *American Journalism Review*, *National Law Journal* and the *Boston Phoenix*. Kleinknecht is also the author of *New Ethnic Mobs: The Changing Face of Organized Crime in America*.

sioned nothing less than a repudiation of Reagan's open market and financial deregulation policies, or Reaganism. In his first weeks in office, Obama has proposed major government intervention in the economy, including new regulation of the financial sector. And yet he dares not criticise Reagan, says the author. Indeed, it is treated as received wisdom in Washington that the Republicans desperately needs to regain the type of leadership that Reagan brought to their party. Critics even say that George W. Bush was a failure because he actually took Reaganism to its logical conclusion, and that was what caused a fiscal meltdown.

We do not know if Reaganism is dead, but we surely do know that the days of reckless deregulation are over. Kleinknecht's book on this 'cowboy from Brooklyn' is racy, and gives a detailed insight into the Reagan-era and what makes it so interesting even today. At a time when every effort is made to identify the root cause of the crisis, Reagan should no longer be exempt from the scrutiny that his legacy so richly deserves.

SELECTION 1



Playing Catch-up

CHASING THE RABBIT
HOW MARKET LEADERS OUTDISTANCE THE COMPETITION AND HOW GREAT COMPANIES CAN CATCH UP AND WIN; BY STEVEN J. SPEAR; PUBLISHER: TATA MCGRAW-HILL; PAGES: 432; PRICE: Rs 1,657

CHASING THE RABBIT CHASES A MYTH: THAT NO one who manages a company is ever incompetent or manipulative. In other words, a high-velocity company's "ability to outperform its competitors cannot be explained by manipulation of its external environment — competitors, suppliers, regulators, investors, etc". While this may appear true, we constantly hear about firms that take short-cuts such as nepotism, subtle force, policy manipulation and corruption.

Steven Spear's book is an inspirational one for those wanting to understand how a company could enjoy quick success. The examples, though few in number, often illustrate his point well. But one of the book's weaknesses is that the author does not provide even the most basic data, such as financial performance, that would enable an objective comparison of companies. Another glaring absence is the mention of environmental damage that high-velocity growth usually ends up in, particularly so as such growth often equals rapid material consumption.

Spear does, however, leave us with some powerful, impressive statements. For instance, when he talks about solving problems before they can spread, he writes, "Many problems occur because of some unexpected, idiosyncratic interaction of people, processes, products, places and circumstances. As time passes, it becomes impossible to reconstruct exactly what was going on when the problem arose." Many workers and managers, who firefight problems of their working lives every day, would respond to that with a loud "aye".

—Rajesh Gajra

SELECTION 2

Following The Stars

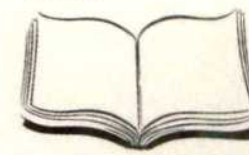
CAN THE STATIC ON A TELEVISION screen connect you with the origins of the universe? As absurd as it sounds, the answer is yes. In THE COSMIC DETECTIVE (Penguin India), Mani Bhaumik explains that the static is actually a picturisation of all the radio waves that a television antenna is picking up, including what scientists call the cosmic background microwave radiation — leftovers from the Big Bang.

Although written for teenagers, this book about the origins of our universe is something that almost anyone can read. Writing from the perspective of the wizened, old professor at Cosmic Detective School, Bhaumik — a scientist, author and creator of the science programme Cosmic Quantum Ray — takes the reader on a treasure hunt across the solar system and space-time. All through, he encourages readers to analyse what he presents, and arrives at conclusions about how or why a certain event may have occurred in our universe.

While this gimmick would keep younger readers engaged, Bhaumik gets serious towards the end. He asks questions about the origins and purpose of human consciousness, and the interconnectedness of all things. Bhaumik's elegant but unpretentious prose transports one to the instant after the Big Bang, where everything that exists today were little more than intensely hot molecules. If you have ever wondered if there was more to the night sky than just the twinkling stars, this is a great book to read. And with 2009 being the international year for astronomy, the timing could not be better.

—Pierre Mario Fitter

ALERT



HEROES AMONG US: ORDINARY PEOPLE, EXTRAORDINARY CHOICES
BY JOHN QUINONES
HARPERCOLLINS
In his career as a journalist with ABC, John Quiñones has met several ordinary but brave people who take difficult, extraordinary decisions without giving in to fear. *Heroes Among Us* chronicles several such stories of selflessness and bravery. According to the author, these are people who do not expect fame or money for their heroic efforts — they are just doing the right thing. At a time when the economic slowdown is affecting the morale of almost everyone, this book could be the perfect inspiration.

The State's Empire

THE CENTRAL GOVERNMENT HAS INTRODUCED IN Parliament a Bill (the Right of Children to Free and Compulsory Education Bill, 2008) to ensure free primary education for all children. The news would please all reasonable people; after all, what could be more desirable than that all Indians should be able to read, write, add and subtract? But there is more than one sting in the government's tail.

GOUTAM ROY

The new Right to Education Bill is well designed to increase the cost and worsen the quality of primary education

The Bill promises that the government would make arrangements to its own satisfaction to provide a government school convenient to every child, but if there is no such school, or there is a government school but a child wants to attend a private school, the government would pay the child nothing. It is a waste of resources to set up government schools where equally good private schools give education at a lower cost; and even where there are not, to confine free or subsidised education to government schools would give them an unfair advantage, restrict competition and protect the government school teachers who are in the habit of not attending classes and knitting there when they attend.

The Bill divides private schools into two classes: aided and unaided. Although it does not say so, aided schools would be private businesses with controls on costs and prices; businessmen would be given an incentive in the form of "aid" to submit themselves to controls. They would pay teachers the same as government schools, and their fees would be controlled.

Aided schools must give free education to a quarter of the children enrolled from their neighbourhood (more if the grant exceeds a quarter of their costs); but these may be any children. They may, for instance, be selected for their intelligence or on the basis of what they know. Unaided schools, which would get nothing from the government, will also have to give free education to a quarter of the children they admit. But these children must be only from backward classes; unaided schools cannot choose children like the aided schools. Children of unaided schools must fraternise with the poor; children of aided schools are exempted from the duty. Surely, if mixing of the rich and the poor in education is good, it should apply to all schools.

There would be no Board examination throughout the eight years of primary education, and no child could be held back if it did not do well enough in a class. This means that in government and aided schools, a child will not have to study at all; whatever she did or did not do, she would be promoted to the next class. A class would have nothing to do with capability; it would be just a cohort of children of same age. It would be difficult to imagine a better way of destroying the lives of children who go to school to learn something, or of demotivating teachers.

Although learning and teaching would be unnecessary and idleness would be the ideal in state schools, every state government would set up an "academic authority", which would lay down curricula and evaluation procedures. What these procedures would be without a general examination can only be imagined; and since no child can be held back for not passing an examination, all the work of the academic authorities seems pretty pointless.

However, the futile labours of all those academic authorities would stop at Class V. Then the central government would step in and create a national curriculum, but only for classes six to eight. It would consist of "languages" (which means little beyond the local language in most cases), science and mathematics, and "social studies", which would presumably teach children about India's great heroes, the rotunda called Parliament, and such irrelevances.

There is no point in the government spending on education unless it achieves an outcome, namely learning. The learning belongs to the child alone, and the child should be the sole beneficiary of a subsidy to education. Teaching institutions should become entitled to the subsidy only when they have taught a child something. The test of whether it has learnt something or not can come only from an examination. Hence, subsidies to schools must be in proportion to the number of children passing examinations.

There is revulsion against examinations these days because of what they do to children: Indian children, especially in private schools, have to slog for hours every day, buy piles of expensive books and carry heavy bags to schools. Let schooling be confined to essential subjects — two languages and mathematics, each divided into ten grades. Let a child get a prize for every grade examination she passes; let her pay what she likes out of the prize to the school that taught it. Let schools compete for the child's money.

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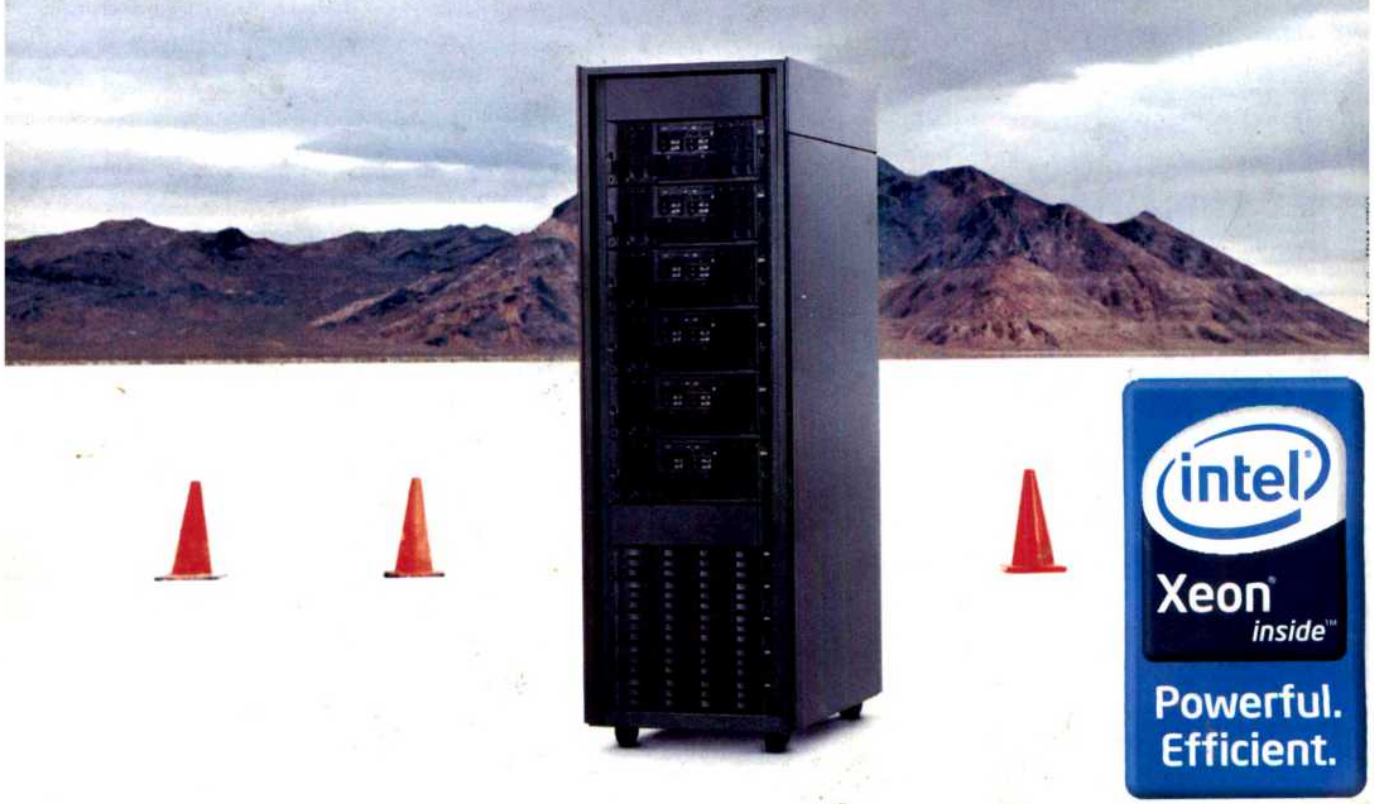

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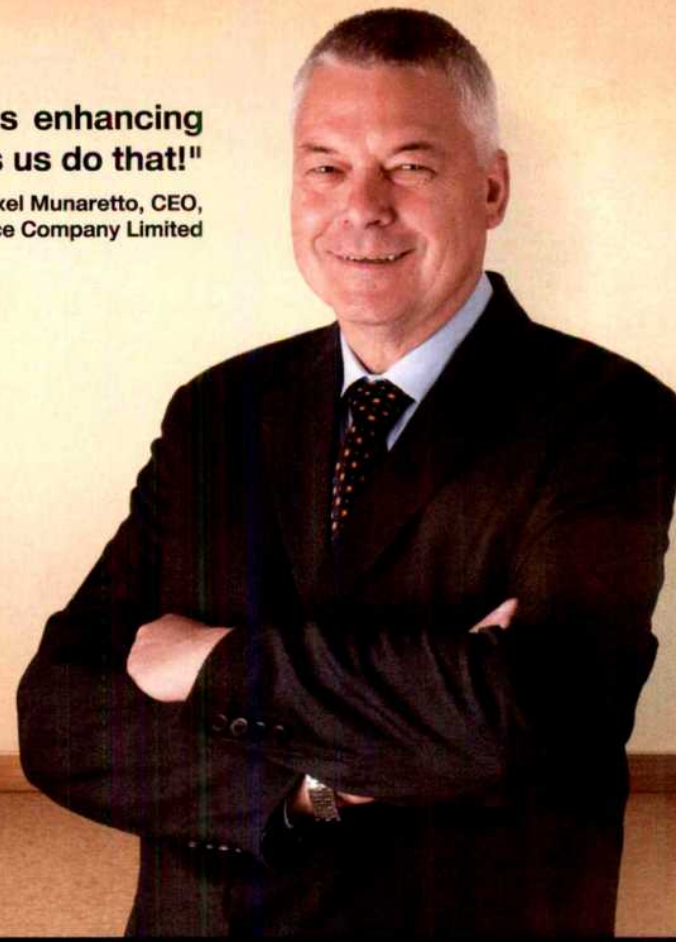

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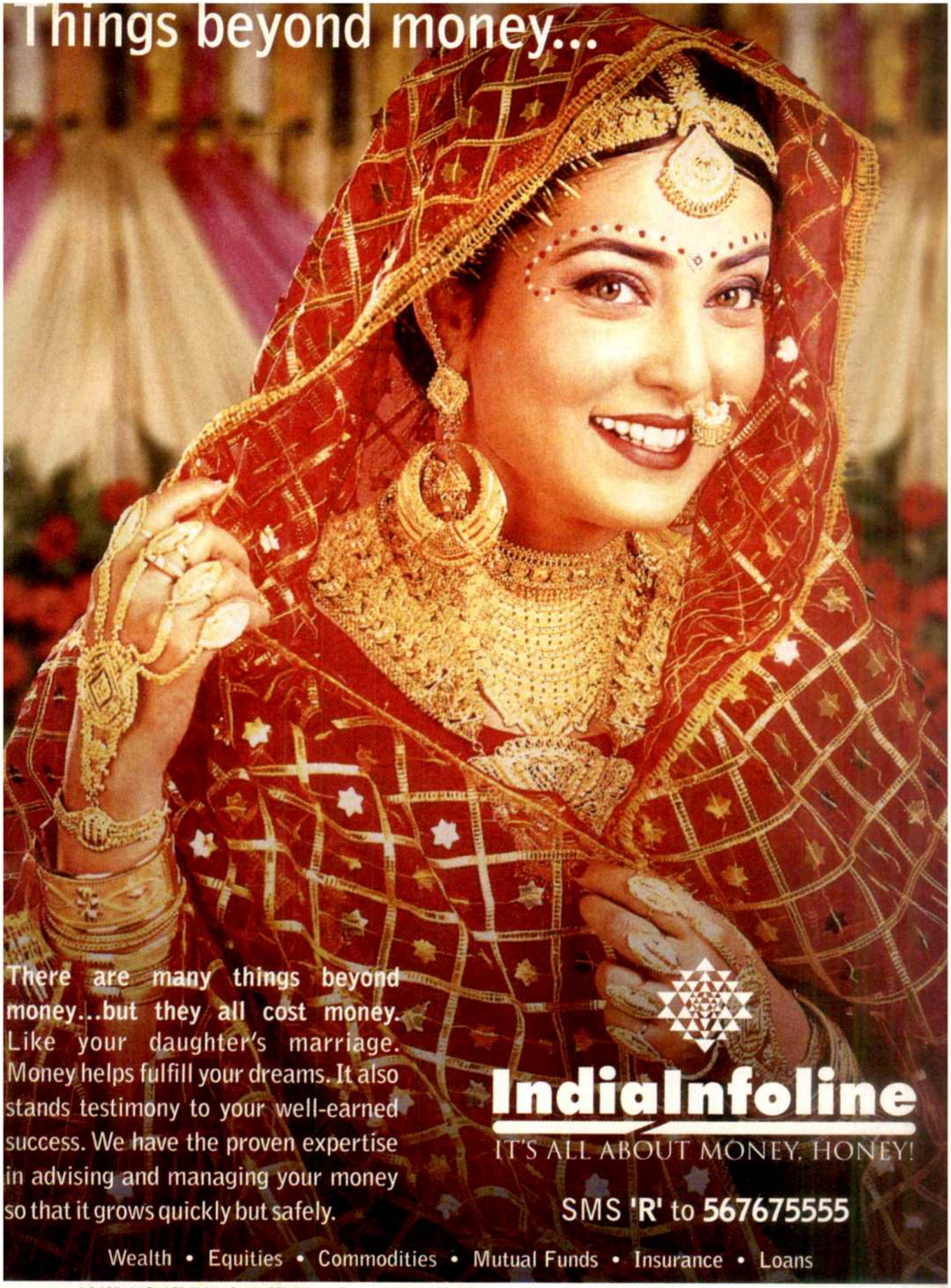

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Dangerous Neighbours

WE LIVE IN A RATHER dangerous neighbourhood. Consider the big news stories of the last week. In Sri Lanka, the LTTE fighting has increased in frequency and tempo. In Bangladesh, the Bangladesh Rifles (BDR) — the country's equivalent of our Border Security Force — mutinied killing at least 77 officers. And in Pakistan, armed gunmen attacked the Sri Lankan cricket team.

It is not as if the unrest in these countries is anything new. There has always been some uneasiness about the situation in Bangladesh. The Sri Lankan problem has been going on for decades now. And Pakistan has been getting more unstable by the day. India has had to contend with its own share of problems with insurgents in various regions, but it has never been as unstable as its immediate neighbours.

Part of the reason, of course, has to do with economics. When a country is progressing fast, people are more preoccupied with the opportunities coming their way than with fomenting rebellion. Indeed, the regions where India sees most strife and insurgency are also those where economic opportunities are relatively scarce.

Both Pakistan and Bangladesh have been in the doldrums, economically. The Sri Lankan economy also has suffered because of the decades-long war with the LTTE. In some ways, it has been a vicious cycle. These countries have not done well economically because of the unrest within their borders. At the same time, the lack of economic progress has helped increase the instability in these countries.

The question is: can India continue on its high-growth path if its neighbours are becoming increasingly unstable? Some would argue that it can. The Indian growth story has progressed too far to be stopped by any instability in the region. Sure, the global economic problems will slow the Indian economic growth for a bit, but sooner or later it will get back on the high-growth trajectory.

But I think there is a real danger that the problems of our neighbours may spill into our country. As 26/11 showed, terror can be exported and when it strikes it affects the business climate of the country. Ultimately, to maintain stability within its borders while living in a dangerous neighbourhood, India will have to spend a lot more on its internal and external security.

Prosenjit Datta

prosenjit datta, editor

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A Long And Fruitful Stint

Former Sony CEO Kunal Dasgupta was the one who turned cricket into entertainment ('The Blowout At Sony', *BW*, 9 March 2009). While the jury is out on whether it was the falling TRPs or the clash with BCCI over the Big TV issue that led to his resignation, what is beyond doubt is that he made cricket on television what it is today. By introducing Mandira Bedi to *Extra Innings* he added the oomph factor, and by taking a huge risk on the IPL Twenty20 matches — it was not a proven model at a time — he sculpted a very successful experiment in sports marketing. People who love the game of cricket have a lot to thank him for. Unfortunately, his exit has already created trouble: we don't know if we will get to see the IPL matches as channels fight over broadcasting rights.

Vinay Makhija, Mumbai

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Education Is A Must

It is the right of every child to get free compulsory education ('The State's Empire' *BW*, 9 March 2009). But the approach adopted by the government is, however, faulty. The government should provide funds, but it should keep out of spending the funds. Funds should be distributed through NGOs, so that the task of primary education is executed well. Having a multiplier model can be developed after trial runs prove successful.

N. Atthreya, via e-mail

To The Point

In 'Securitisation Is Still Good' (*BW*, 9 March 2009), Laurence. D. Fink, CEO of BlackRock makes a reference to the Troubled Asset Relief Programme (TARP) of the US Treasury, which reminds me of the Stressed Asset Stabilisation Fund (SASF) that works along the lines of Special Purpose Vehicles in India. He gets to the crux of the matter when he says that TARP should have bought toxic assets instead of buying equities. It did not help stabilisation as equity itself collapsed. The Indian experience with SASF, however, is the reverse — it purchases distressed assets and cleanses the balance sheet with a stroke of the pen that is good for the continued stability of the financial system.

S. Umashankar, Nagpur

Widening Crisis

China's export market growth has been hit by the global slowdown ('Double Impact', *BW*, 9 March 2009). The impact of the US credit crisis has spread from financial markets to consumption and investment fields. In a recent interview, the president of the multilateral institution Asian Development Bank, said the credit crisis is more likely to hit China than India, as the Chinese economy is heavily dependent on exports. But that means it would hit India too. India's raw material exports have already come down with Chinese manufacturers unable to find buyers for their finished goods. But the reality is that if we toughen trade relations with China to curb dumping of Chinese goods, it might hit India's exports in the long run. But as the author writes, we hope this to be a short-term issue and things will be normal soon.

Shekhar Ramamurthy, Bangalore

Letters may have been edited for brevity.

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ON THE HOT SEAT: LG's Moon Bum Shin (left) and Samsung's Jung Soo Shin

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LG and Samsung are struggling to come to terms with past mistakes and slowing demand.

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View from the top.

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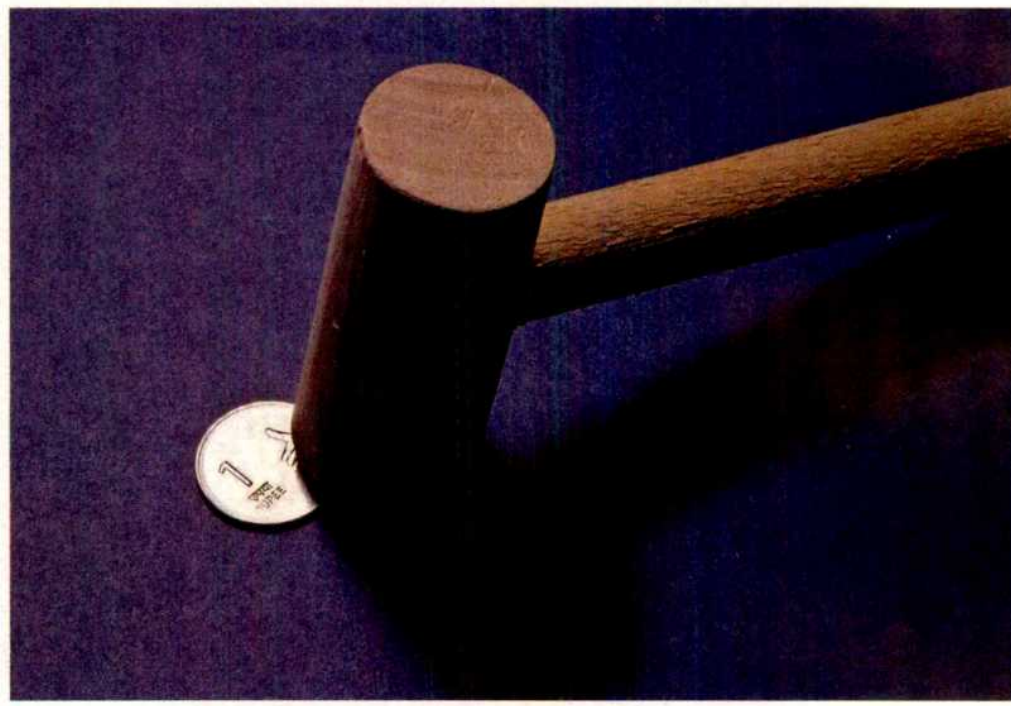
CURRENCY

Whither The Rupee?

Indications are that the rupee is likely to weaken in the months to come



TRIBHUWAN SHARMA

FLATTENED: According to some forecasts, the rupee will touch Rs 56 in three months

EVERYTHING IS PLUMMETING: exports, imports, economic output and the currency. The rupee went below Rs 52 to the dollar on 3 March, and further declines in its value are imminent. Barclays Capital, a British investment bank, recently said the rupee could touch Rs 56, and Goldman Sachs, a US bank, said it could depreciate by 10 per cent in the next 12 months.

A number of proximate causes have been advanced: worsening economic conditions, horrible government finances, and the global recession. India Inc. is worried: companies' foreign liabilities now mean higher debt servicing costs and lower profits; for several with positions in currency derivatives that have not yet unwound, the income statement for this financial year will have big holes.

Both importers and exporters have made assumptions about the sustainability of exports, and hedged at Rs 42-45 levels; at Rs 52 and over, that hurts. The Reserve Bank of India (RBI) has tried to stem the rupee's value decline, but its capabilities — and its resources as measured by the size of its foreign exchange reserves — are limited in a world where almost every currency is weak relative to the dollar.

The decline of the rupee poses several risks. A declining currency is unlikely to attract fresh foreign capital, something India sorely needs. If anything, there has been capital flight through portfolio outflows, and there could be more. All forms of supplier credit are drying up, and dollar demand is rising from both importers and exporters, adding further pressure. The proposed new symbol for the rupee is unlikely to be a symbol of strength.

Srikanth Srinivas

70 billion dollars. The "modest" increase in military spending announced by China for 2009.

QUOTE OF THE WEEK **"Conspiracies against Bangladesh are not over yet. There is still a plot to foil our democracy."**

— Bangladesh Prime Minister Sheikh Hasina

COMMODITIES

Tug Of War

Who has the right to fix transaction charges: the exchange or the regulator?

THE TUSSLE BETWEEN the Forward Markets Commission (FMC, the commodities market regulator) and the National Commodity and Derivatives Exchange (NCDEX) has taken a new turn; the FMC put its order dated 19 February that set aside an NCDEX's circular dated 28 January on its website www.fmc.gov.in. In the circular, NCDEX had reduced transaction charges for trades after 5 pm.

On 29 January, FMC passed an interim order prohibiting NCDEX from implementing the exchange's circular. NCDEX filed a petition in the Bombay High Court but the court said it is FMC's call and FMC concluded it was right in its earlier action.

SATHEESH NAIR

COLD WAR: FMC has cancelled NCDEX's proposal to change transaction charges

The FMC says it is intervening to "discourage unhealthy and irresponsible competition" but commodity market producers, investors and brokers might well be arguing it is their choice — and not the regulator's — to determine what constitutes unhealthy practice. "At present, smaller traders are at a disadvantage on account of higher transaction charges and our objective was to provide a level-playing field," says R. Ramaseshan, managing director of NCDEX.

As long as there are multiple exchanges, the freedom to fix transaction charges should remain with the exchange and not the regulator.

Rajesh Gajra

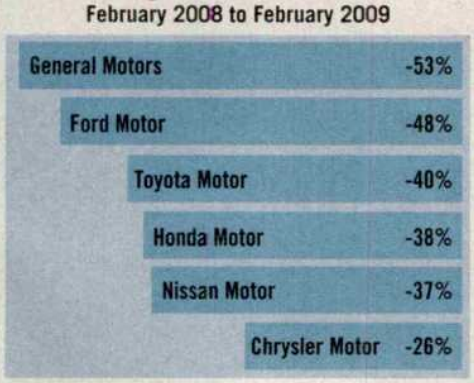
Global NEWS

The army of Guinea-Bissau shot dead the country's president João Bernardo Vieira on 2 March. This happened within hours of the army chief, General Tagme Na Waie, who was critical of the president, being killed in a bomb blast. Vieira ruled the tiny African country for 22 years.

GM LEADS PLUNGE IN SALES

In February, automakers in the US sold the fewest vehicles for any month since 1981, according to seasonally adjusted annualised figures. Concerns about employment are keeping potential buyers away.

Change in US auto sales from February 2008 to February 2009



Source: the companies; Autodata Bloomberg

BROADCASTING

SHIFTING REVENUE BASE

VIACOM18'S ENTERTAINMENT CHANNEL, Colors, and the Sony-led distribution network OneAlliance have signed a deal that will give Colors a minimum guaranteed return of Rs 270 crore over three years. Colors, which has been distributed free so far, will charge Rs 21 per subscriber per month.

According to Colors CEO Rajesh Kamat, Colors will serve as a driver channel for the OneAlliance bouquet, whereas competing distribution networks such as Star-DEN are too "crowded".

The Sony-Colors deal, inked by former Sony CEO Kunal Dasgupta, highlights the importance of subscription revenue at a time when companies have been cutting down on advertising.

Revenue for broadcasters is skewed heavily in favour of advertising in a 70:30 ratio, and channels are trying to ensure that the dependence on ad revenue is progressively reduced. "Advertising is down, but subscription continues to show robust growth," says Rajesh Jain, head of entertainment practice at KPMG.

Gurbir Singh

BLOOMBERG

Hot seat
Troubled Swiss bank UBS has appointed Oswald J. Grubel as its CEO. The Swiss bank is not only reeling under the global financial meltdown, but is also fighting tax fraud charges levelled by the US government. UBS has also incurred writedowns to the tune of $50 billion (Rs 2,57,726 crore). Grubel is credited for the turnaround at the rival firm Credit Suisse.

All-cash deal
Aegis, a back-office unit of the Essar Group, is buying global business process outsourcing firm ICT Group for $128 million (Rs 665.93 crore) in cash. "The combined business will offer a wider set of services and solutions to both companies' clients," says Aparup Sengupta, managing director and Global CEO of Aegis.

Start-up call
Maneesh Dhir, AOL's executive vice-president international, is leaving to launch his own start-up business. Dhir is quitting after a 10-year-stint at the Time Warner-owned company. "Under Dhir's leadership, AOL went from a company with a consumer presence in just four countries outside the US to one that is now in 38 countries in less than two years," AOL says in a communique.

Domestic consolidation
Baosteel Group Corp., China's biggest steel producer by output, has acquired a 56.15 per cent stake in Ningbo Iron & Steel Co. for 2.02 billion yuan ($295.3 million or Rs 1,540 crore). The deal came after the Chinese government chose Baosteel to lead the consolidation in the domestic steel sector, Baosteel says in a statement.

AP

Media freedom
Zensar Technologies, promoted by Sanjeev Goenka-led RPG Group, has tied up with British media group TwoFour Media to launch Media Freedom, a Web-based broadcasting platform, in India. Media Freedom offers a single solution for acquiring, managing and delivering video content online.

BIVASH BANERJEE

Raising the stake
Bhushan Energy, promoted by Bhushan Steel, has further raised its stake in Orissa Sponge & Iron through open market purchases. Bhushan Energy acquired 130,000 shares, or 0.65 per

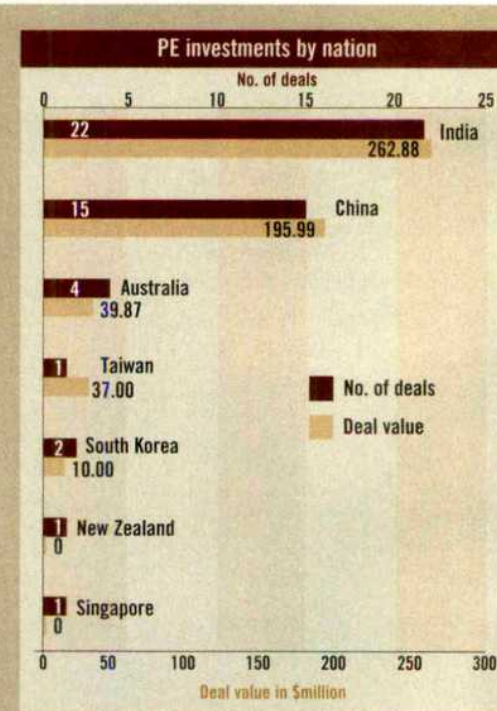
BW-THOMSON REUTERS PE DEAL TRACKER

$546 million The value of the Asian private equity (PE) market, which witnessed 46 deals as of 2 March 2009. India was the largest market in the region with 22 deals worth $263 million.

Top India deals

TARGET	INVESTOR	NATION	DEAL SIZE ($M)
Krishnapatnam Port Co.	3i Group	UK	161.00
Pranav Construction Systems	Nine Rivers Capital Management	India	10.00
Appnomic Systems	Norwest Venture Partners	US	4.10
GETIT Infoservices	Helion Venture Partners	Mauritius	4.00
MindTree	Nalanda Capital	Singapore	3.19
Kerns Aero Products	GE Commercial Finance - Equity	US	2.00
High Mark Credit Information Services	Battery Ventures	US	NA
Home Solutions Retail (India)	Kotak Investment Advisors, ICICI Venture Funds Mgmt Co.	India	NA
Metropolis Health Services	ICICI Venture Funds Mgmt Co.	India	NA
Rx HealthCare Magic	Accel India Venture Fund	India	NA

Figures for 25 January-28 February 2009



Figures for 1 January-2 March 2009

cent equity of Orissa Sponge Iron, at Rs 359.95 a share. Bhushan Energy and associates now hold 16.3 per cent stake in the Bhubaneswar-based company.

Extending reach

Tata Communications has signed an agreement with UAE's telecom service provider Etisalat to launch ethernet services in the UAE. The partnership will enable Etisalat to extend its reach by offering layer-two global ethernet services in and out of the UAE, while Tata Communications will be able to extend its global network coverage, both the companies say in a joint statement.

Rediscovering India

London-based Vedanta Group is rejigging its expansion plans for India. Over the next three years, the company will invest a whopping Rs 70,000 crore in the country. "We will invest Rs 50,000 crore in the aluminium sector and Rs 20,000 crore in other areas like copper, iron ore and zinc by 2011-12," says Anil Agarwal, executive chairman of Vedanta Group.

SUBHABRATA DAS

BLOOMBERG

Air India to reach West via Frankfurt

Air India has made Frankfurt its first international hub for its West-bound flights. "The move is prompted purely by the consideration of offering more convenient connections to a larger originating traffic," says Jitender Bhargava, executive director for communications at Air India. The move will be effective from 29 March.

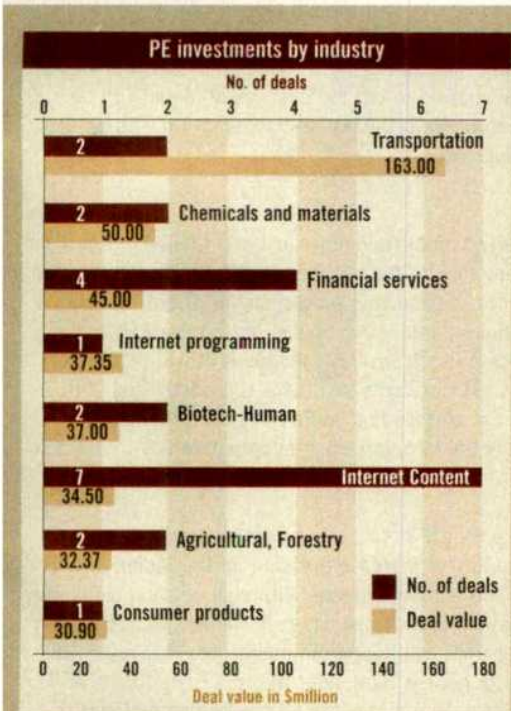
New avenues

Global BPO and IT services provider Patni Computer Systems has signed a local SAP services partnership with SAP Japan, aimed at the Japanese market. The partnership is expected to help Patni enhance its proficiency in offering high-value service to customers as a SAP service partner in Japan. "Patni has a keen focus on the Japanese market and this partnership will enable us to further enhance value and accelerate growth for Japanese companies," says Deepak Khosla, senior vice-president and head APAC Patni.

Rights issue

London-headquartered HSBC is planning to raise £12.5 billion ($17.7 billion or Rs 91,605 crore) from shareholders through a rights issue in the UK.

BLOOMBERG



Figures for 1 January-2 March 2009

Top Asia deals

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Krishnapatnam Port Co.	India	3i Group	UK	161.00
Pranav Construction Systems	India	Nine Rivers Capital Management	India	10.00
Appnomic Systems	India	Norwest Venture Partners	US	4.10
GETIT Infoservices	India	Helion Venture Partners	Mauritius	4.00
MindTree	India	Nalanda Capital	Singapore	3.19
Kerns Aero Products	India	GE Commercial Finance - Equity	US	2.00
Discovery Metals	Australia	The Resource Capital Funds	US	1.50
Anhui YingLiu Group	China	Asia Mezzanine Capital Advisers	Hong Kong	NA
ASP Access Floors	Australia	Zabeel Investments	UAE	NA
India Financial Inclusion Fund	India	CDC Group	UK	NA

Figures for 8-28 February 2009

Note: Sum invested is actual money taken down or disbursed to portfolio companies. PE deals are classified as investments where the investor is a PE firm. The above tables do not include investments made by angel investors, hedge funds, trusts and corporate investors. Such investors are taken into account only when they have invested alongside PE firms.

Log on to www.businessworld.in for the complete list

Quick Take

Will Barack Obama's stand on outsourcing affect businesses in India badly?

We asked... Kapil Aggarwal, director, Optima Insurance Brokers; Manohar Atreya, head, Technology Investment Banking, o3 Capital; Anil Chouhan, director, Yo Team; Gordon Coburn, CFO and COO, Cognizant; Vivek Durai, advocate; Manav Garg, CEO & founder, Eka Software Solutions; Anish Goel, MD, Victorinox India; Ajay Kumar, IT secretary, Government of Kerala; Sushil Kumar, Dean, School of Management, Gautam Buddha University; Keshav R. Murugesh, president & CEO, Syntel Inc.; Phani N. Raj, founder, eYantra; Suvojoy Sengupta, MD, Booz & Co., India; D.K. Ghosh, chairman & MD, ZTE Telecom India

"The BPO/IT industry is seeing demand slowdown and this step may increase pressure on the players."

Suvojoy Sengupta, MD, Booz & Company, India

"To be competitive on a long-term basis, American industry has to tap the best talent globally."

Gordon Coburn, CFO and COO, Cognizant

"If pushed into legislation, this move will pose a big challenge for IT and ITES companies in India."

Kapil Aggarwal, director, commercial lines, Optima Insurance Brokers

Yes 38%

YES BECAUSE: The announcement will definitely have an impact on India's IT (information technology) and other industries as it depends heavily on outsourcing contracts from the US. Discouraging outsourcing through tax break withdrawals is going to make US firms uncompetitive in the long run. It is in the US's interest that the Obama administration realises the futility of such measures and rolls them back. Protectionism is not something that would help the US economy, which is already grappling with recession. The US companies should be allowed to tap the best talent globally to be competitive on a long-term basis. Realities of cost pressures in business have to catch up with politics, and sound business judgement will take over sooner than later.

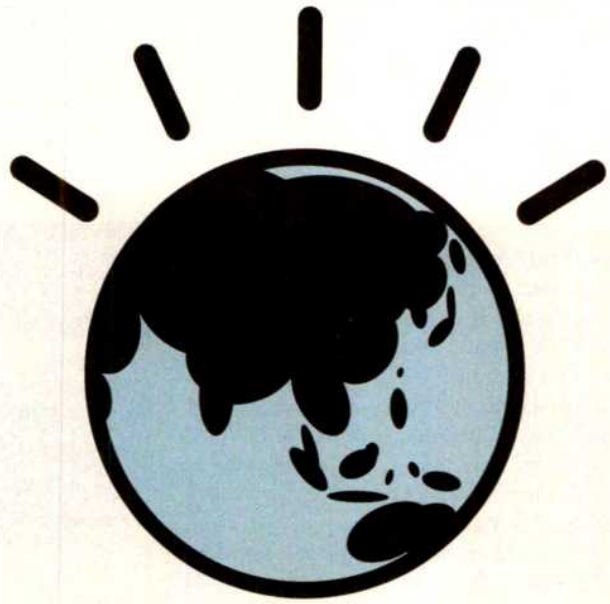
No 24%

NO BECAUSE: President Barack Obama's stand on outsourcing has been spelled out over the past few years. Although he often speaks about retaining jobs in the US, he has also made statements indicating that his administration is not pursuing a policy of economic protectionism. If outsourcing results in 30 per cent savings, doing the same domestically is not sustainable. Managers of US companies need to ensure that their firms grow in these difficult market conditions. It will be difficult for them to ignore any model that increases efficiency, reduces costs and helps them leap frog over competition. There will continue to be strong demand for services that India has been offering. The move against outsourcing will fizzle out soon as the benefits of outsourcing to corporate US are huge.

Maybe 38%

MAYBE BECAUSE: Withdrawal of tax breaks will not result in total reversal on outsourcing by US companies. However, the move may further increase pressure on the Indian BPO/IT industry, which is already witnessing slowing demand and margin squeeze. Although outsourcing is now well established as a business strategy in several industries, US companies may want to adhere to the policies of the new administration. But the question is, what will happen to businesses if they do not have access to the best of global talent? It is still hard to get the right skills and the right quality of people. In the face of economic challenges, countries have sometimes moved towards protectionism, but as every economist would attest, that is not the best thing to do in an economic downturn.

Conversations for a Smarter Planet: 1 in a Series



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Consider these:

The second annual Global Retail Theft Barometer Survey across 36 countries in 2008 found that India has the highest shrinkage rate at 1% (that's about Rs. 12,392 crores in losses).

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Owing to its unique geo-climatic conditions, India is highly prone to natural disasters. So much so, they cost the country 13% of its GDP today and will go on to become a major stumbling block to its economic growth by next year.

The good news is, on a smarter planet, these problems are solvable.

Now, consider these:

Hindustan Petroleum Corporation Ltd. is now in the process of implementing a tracking system for its Liquefied Petroleum Gas cylinders from the bottling plant to its distributor network, using a Radio Frequency Identification (RFID) based solution, helping curb illegal diversions, while delivering an essential resource to consumers.

Financial Information Network and Operations Ltd., a technology solutions provider focusing on micro customers, is helping many of the nation's disadvantaged gain access to simple financial products to improve their quality of life.

While it cannot eradicate natural disasters or even reduce them, technology can certainly help mitigate losses and alleviate human suffering. Based on analysis of affected regions, relief agencies can be guided to manage people, resources and logistics in a far more efficient manner.

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RIL-RPL MERGER

Making Elephants Dance

The merger is a strategic masterstroke; shareholders' benefits are unclear

ARVIND RAO HAD MIXED EMOTIONS WHEN HE HEARD about the merger of Reliance Petroleum (RPL) with its parent, Reliance Industries (RIL). An avid investor and investment advisor, Rao had pleaded with friends and clients to exit RPL when it hit a high of Rs 206 in April last year. "Having listed at Rs 60 in 2006, that was the best time," says Rao. "But because of the bullishness then, hardly anyone sold." The stock, which was also bought heavily at Rs 150-180, soon crashed to Rs 68.55 in November 2008.

The moot question is: why now? It is not clear that RPL shareholders are better off with the merger. Based on the 2006 listing price of Rs 60, RPL shareholders make Rs 15 on their investment after three years, more in line with returns on bank fixed deposits; those who bought above Rs 75 have lost. Rao wonders what the swap ratio might have been if RIL had waited for RPL to start production (in March 2009): what might have been a fair value based on its project strengths then?

CHANGING PATTERNS

The RIL-RPL merger will result in dilution of RIL's equity by 4.4 per cent

	Pre-merger	Post-merger
RIL promoters	49.0	47.0
Treasury stocks	6.0	5.7
RIL promoters*	55.0	52.7
Others	45.0	47.3

*RIL promoters' effective stake

Source: *BW* research

LAUGHING ALL THE WAY TO THE BANK: RIL Chairman Mukesh Ambani

Had it remained a separate entity, RPL's revenues may have been at least as large as RIL's, and that may have changed perceptions of its value. RPL's refinery is also considered more efficient than RIL's; both are almost the same size. But RIL is a diversified company, and RPL shareholders will benefit from the diversification of their portfolio risk.

"The refining industry is not likely to recover before 2011, given the current conditions of excess capacity," says Niraj Mansingka, oil and gas analyst at Edelweiss Capital, a securities firm. "This would be true even if refining margins for RPL are likely to be higher compared to RIL." Refining margins have fallen from about $14 a barrel in March 2008 to approximately $5-7 today, which might also explain why Chevron chose to sell back its 5 per cent stake to RIL, rather than increase its shareholding.

RIL owns almost 71 per cent of RPL, and the capital base of the parent company will go up by 4.4 per cent or so, which is matched by the growth in profits that RPL will bring, so earnings per share may not change much. But the deal still looks good for RIL.

Somshankar Sinha, an analyst at Credit Lyonnais Securities Asia, says the abatement of project risk in RPL, the consolidation of cash flow once RPL goes on stream, better operational flexibility and more integrated earnings in RIL balance sheet are the plausible reasons for the merger. Other analysts point to RIL's past history. The original Reliance Petroleum (Reliance Refineries, renamed in 1993) was mandated to execute the Jamnagar refinery, and merged with RIL in 2002. The idea, analysts say, was to keep the project execution risk off the RIL balance sheet till a viable time, when it could be merged with RIL, with accruing benefits.

Both companies enjoy a tax holiday: RIL's refinery has export-oriented unit status till March 2010, but after that, there is no clarity. RPL's refinery will have tax benefits for five years from the first day of commercialisation, widely anticipated to be sometime in April at the latest. The merger also gives RIL an edge over its competition in another way. As a separate company, RPL would have to make public its refining margins; investors and rivals would have been able to compare the margins of RIL versus that of RPL, and perhaps discover where the companies had an edge. With the merger, RIL needs to publish just one number for its refining margins.

RIL Chairman Mukesh Ambani's timing could not have been better.

Sreevalsan Menon

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ECONOMY

A Long Road To Recovery

The third quarter GDP growth slumped to its lowest in six years

STIMULUS PACKAGES NOTWITHSTANDING, THE impact of the global financial crisis is beginning to tell on the performance of the Indian economy: third quarter GDP growth (October to December) has gone down to and annualised 5.3 per cent — the lowest in six years.

These numbers fly in the face of the advance estimates of GDP growth for 2008-09 (FY09) put out earlier in February, which projected the economy to grow at 7.1 per cent.

Some senior government officials say that they are "not perturbed" by these growth numbers; the chief statistician of India, Pronab Sen is more candid, saying that now the growth for FY09 will be in the region of 6.5 to 6.8 per cent.

The economy grew at an annualised rate of 7.9 per cent and 7.6 per cent respectively (see 'Dwindling Numbers') in the first two quarters of FY09.

The latest numbers put out by the Central Statistical Organisation (CSO) show that in the first nine months of FY09 the economy grew by 6.9 per cent; growth for the fourth quarter will have to be around 7.7 per cent to enable an overall growth of 7.1 per cent for the full year.

Such a growth rate does not seem possible, says Sen, given the performance of agriculture and industry, especially exports.

The CSO data is alarming: growth in agriculture and manufacturing is negative: (-)2.2 per cent and (-)0.2 per cent, respectively.

While the contraction in manufacturing has been captured by the slump in the index of industrial production (IIP) last year, figures from the department of agriculture and cooperation were used to work out the third quarter growth numbers — during the kharif season of 2008-09 rice, coarse cereals and pulses recorded growth rates of 3.4 per cent, (-)13.2 per cent, and (-)24.7 per cent, respectively.

Among commercial crops, the production of oilseeds declined by 21.2 per cent during the kharif season of 2008-09; production of cotton and sugarcane is also estimated to decline by 14.4 per cent and 16.6 per cent, respectively during FY09, the CSO says.

But for a growth of 17.3 per cent in the "community, social and personal services" — which according to Partha Mukhopadhyay, senior fellow at the Centre for Policy Research, is largely on account of the implementation of the Pay Commission recommendations — the third quarter growth would have been lower. The very same segment grew at 8.5 per cent-7.7 per cent in the previous two quarters, he says; if that rate had prevailed in the third quarter, the overall growth rate could have been even lower at 4.3 per cent rather than 5.3 per cent.

So where is India's growth story heading? Just a few days ago, Reserve Bank of India (RBI) Governor D. SubbaRao said in Tokyo that it was "clearly beyond debate" that "this Great Recession of 2008-09 is going to be deeper and the recovery longer than earlier thought". He also put the past five years in perspective, saying that while "India clocked an unprecedented 9 per cent growth", things had changed dramatically: the "global crisis will dent India's growth trajectory as investments and exports slow".

In January, the Prime Minister's Economic Advisory Council projected growth in 2009-10 to be "between 7.0 per cent and 7.5 per cent" after factoring in the impact of "monetary easing, fiscal stimulus and other administrative measures including reprioritisation of public expenditure and accelerated implementation of the infrastructural projects in the pipeline".

But according to Mukhopadhyay, a crucial element of the stimulus accounts for a very administrative measure — that of government spending on rural roads, etc. Given the slowdown in highway/road construction over the past few years, will this actually materialise?

Kandula Subramaniam

DWINDLING NUMBERS

Growth figures for the past three quarters show a steep fall

	2008-09 Q1	Q2	Q3
Agriculture, forestry & fishing	3.0	2.7	-2.2
Mining & quarrying	4.8	3.9	5.3
Manufacturing	5.6	5	-0.2
Electricity, gas & water supply	2.6	3.6	3.3
Construction	11.4	9.7	6.7
Trade, hotels, transport & communications	11.2	10.7	6.8
Financing, insurance, real estate, others*	9.3	9.2	9.5
Community, social & personal services	8.5	7.7	17.3
GDP growth	7.9	7.6	5.3

Figures are in % *Business services. Source: Mininstry of Statistics and Programme Implementation

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PHARMACEUTICALS

A New Prescription For AstraZeneca

The pharma company is taking to branded generics to widen reach

SUBHABRATA DAS

GROWTH MANTRA: AstraZeneca is eyeing a greater share of the Rs 34,000-crore Indian pharma market

IN A DEPARTURE FROM ITS CURRENT STRATEGY OF focusing on a clutch of brands from its UK-based parent AstraZeneca's stable in areas such as asthma and critical care, AstraZeneca Pharma India will launch a slew of branded generics — off-patent drugs not discovered or developed by the parent — to widen its reach in the Rs 34,000-crore Indian pharma market.

The market response to the move will be watched eagerly by other MNC drug firms. The Bangalore-based Rs 355-crore Indian subsidiary is likely to introduce about 40 such products, though the branded generics manufacturing will be outsourced. "The company is keen on widening its market reach, and believes this can be done through the launch of branded generics," says one distributor who is privy to the plan. This will also help create a wider base for future patented drug launches. The distributor says AstraZeneca is ramping up its sales team by 600 people to hawk these drugs to doctors.

"In order to continue growing faster than the market, we will be looking at launching AstraZeneca's global (products) as well as products aimed at the Indian market," the company writes in an e-mail response to *BW*. "We are also looking at significant expansion of field force to support our growth strategy."

For multinationals such as the $31-billion AstraZeneca, emerging markets such as China and India hold out prospects of faster growth rates than western ones stuck at low single digits. In China, where AstraZeneca has made major investments, the company closed 2008 with revenues of $627 million.

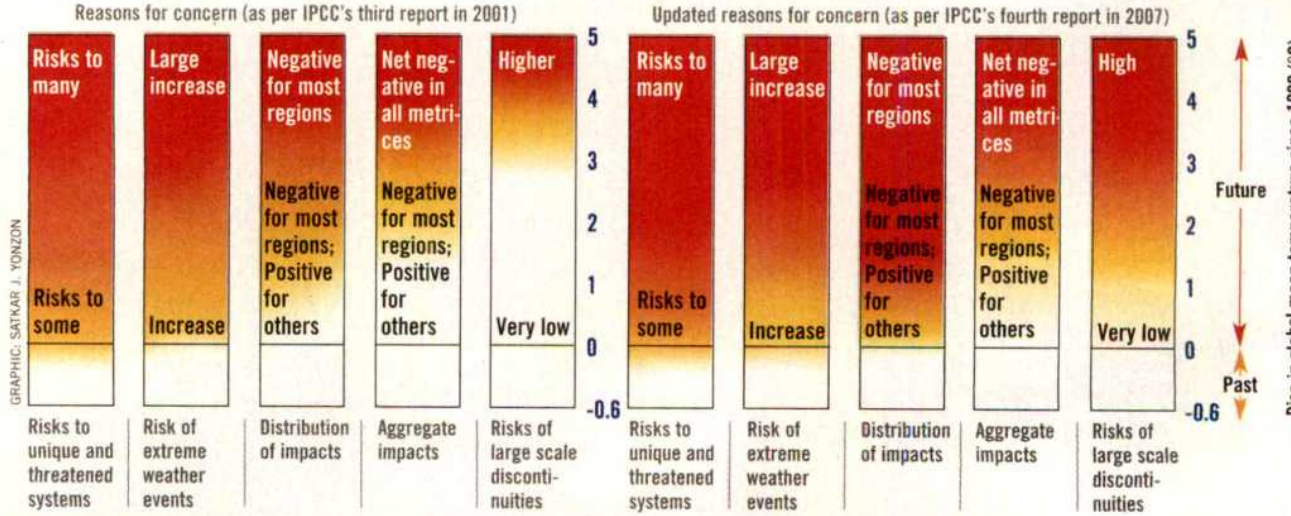
But strategies for these markets have to be tailor-made. The Indian pharma market grew 13.4 per cent between February 2008 and January 2009, according to market research firm ORG-IMS. But this pace is still driven by generics as India's drug patent laws kicked in only in 2005.

AstraZeneca's move seems to be a response to this business reality.

Gauri Kamath

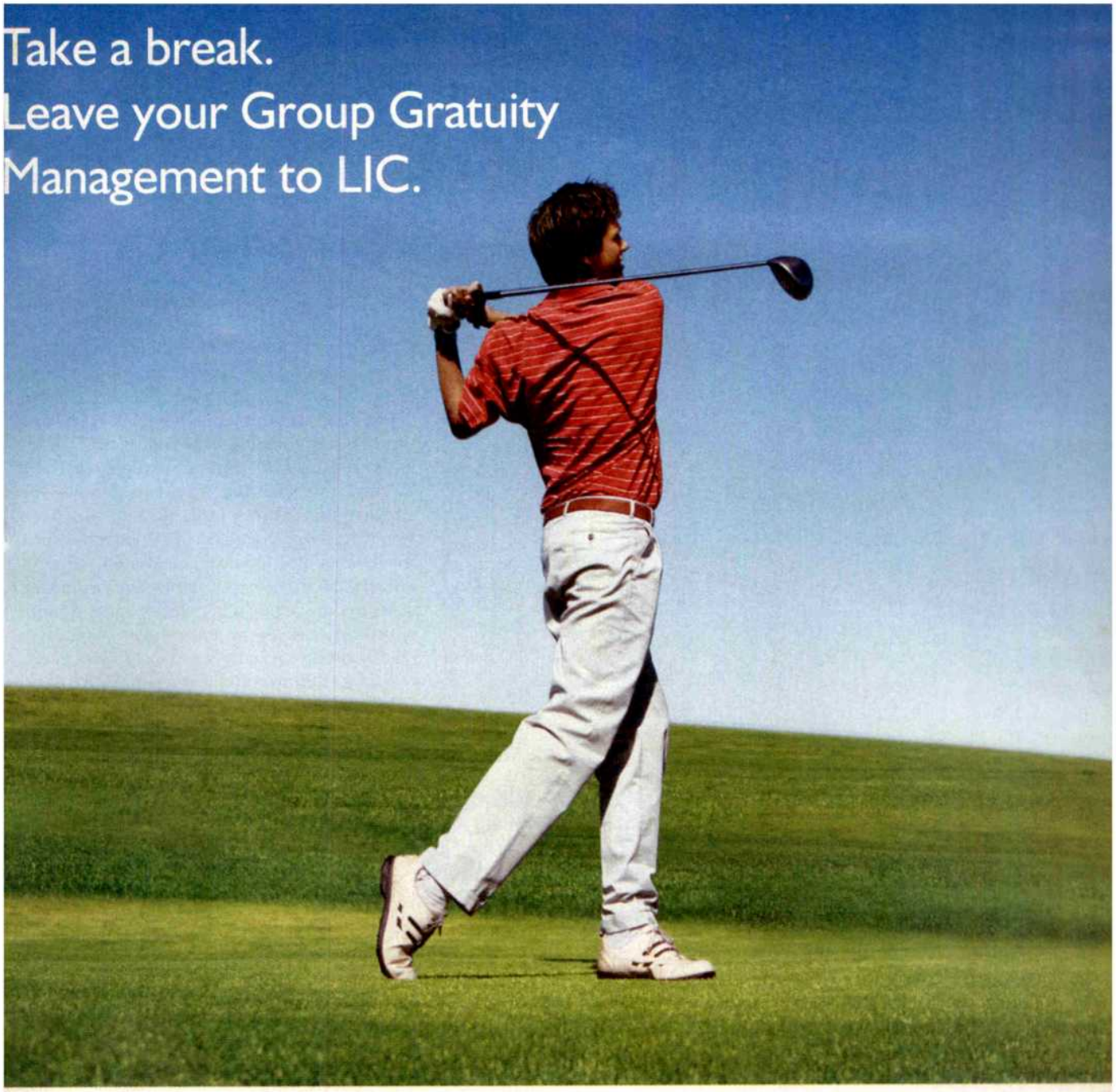
BURNING EMBERS

The 'missing' chart in Inter-governmental Panel on Climate Change's 2007 report has recently been published in a US journal. The controversial chart, 'Burning Embers', showing how one degree rise in global temperature increased the likelihood of catastrophic events, was omitted because the colour coding used was "too subjective", according to the US, Saudi Arabia, Russia and China



Each column corresponds to a specific 'reason for concern' and represents additional outcomes associated with increasing global mean temperature. The colour scheme represents progressively increasing levels of risk. The historical period 1900 to 2000 warmed by ~0.6 °C and led to some impacts. This figure addresses only how risks change as global mean temperature increases, not how risks might change at different rates of warming.

Source: Inter-governmental Panel on Climate Change



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SPORTS

Spoiling The Cricket Party

AP

IT'S NOT CRICKET: Sri Lankan players being airlifted from the Gaddafi Stadium in Lahore on 3 March

THE TERRORIST ATTACK ON THE SRI LANKAN TEAM in Lahore has far greater ramifications for cricket than earlier imagined, and at the larger level for the business of sports. As the world slips further into recessionary conditions, the coming Indian Premier League (IPL) season was being looked upon to reverse the gloom. Unfortunately, the hail of bullets that sent the traumatised Lankans mid-tour back to Colombo have killed those hopes, too.

Haroon Lorgat, CEO of International Cricket Council (ICC) thinks it will be some time before international cricket could be played in Pakistan. "It's difficult to see international cricket being played in Pakistan for the foreseeable future," Lorgat told reporters in London.

Among others, Dubai-based sports channel Ten Sports will take the biggest hit. The channel — in which Zee Entertainment has a 50 per cent stake — only recently renewed its contract for telecast rights with the Pakistan Cricket Board till 2013. The rights, purchased for $80 million, translate into 181 days of international cricket and include two India tours. The channel now has the option of renegotiating its telecast fees or rescheduling matches in Dubai and Sharjah.

The corollary of the Lahore attack goes well beyond cricketing in Pakistan

In India, the Lahore attack and the upcoming elections have cast a shadow over the eagerly-awaited IPL season, which is set to kick off from 10 April. Home Minister P. Chidambaram has said para-military forces cannot be spared for IPL matches during the election period (16 April-13 May). This has sent the Board of Control for Cricket in India (BCCI) and IPL Commissioner Lalit Modi scurrying to rework the matches or consider a cancellation.

But observers think postponing the IPL season would be difficult. "The Indian team leaves for West Indies on 4 June, then there is the ICC Twenty20 matches post-monsoon, followed by an Australian tour of India. The dates are too tight to allow for 45 days of IPL matches in a fresh schedule," says Satish Menon, CEO of Sport18. Modi, however, thinks that reworking dates in the existing schedule is a better option. Ultimately, the central government will have to take a call between cricket and security concerns.

A cancellation could mean serious damage. "The IPL season was celebration time. Along with the money elections pumps into the system, IPL would have given a spike," says Madhukar Kamat, president of the Advertising Agencies Association of India and CEO of the Mudra Group. "If the season is postponed, the event will lose momentum."

Sport18's Menon says that one IPL season delivers about Rs 250 crore-300 crore in telecast revenue. That would be the loss of telecast rights holder Sony Max and Doordrashan, and consequently for BCCI that will have to scale back telecast fees. Ground rights are worth Rs 100 crore, while IPL team has a budget of Rs 20 crore-25 crore in players fees that will not be earned. Even if Modi succeeds in pushing through the current schedule, will the foreign players travel to India? New Zealander Jacob Oram says he has second thoughts about coming while England's Kevin Pieterson and Andrew Flintoff are under pressure from colleagues to call off their participation. Without the glamour of these international faces, IPL could lose much of its élan.

A recent KPMG-Ficci survey on the media and entertainment industry values India's sports market at Rs 2,000 crore and growing at 20 per cent annually. A single IPL match is expected to generate Rs 20 crore. "Sports all over the world, and cricket in the subcontinent, are one thing consumers are willing to pay for," says Rajesh Jain, author of the KPMG report.

Unfortunately, KPMG had not calculated on the Taliban spoiling the party.

Gurbir Singh

DEPARTMENT OF POSTS

Postman's New Role

India Post is eyeing revenues from non-core business operations

THE DEPARTMENT OF POSTS (DOP), REPRESENTED by the unassuming postman, adds another role for him in rural India. More than 1,200 Grameen Sanchar Sewaks, as they are called in rural India, will now collect the data for preparation of consumer price index (CPI).

It will also help the DoP enhance its revenue potential from non-core business operations. Initially, Ministry of Statistics and Programme Implementation (MOSPI) will be paying the DoP for offering Grameen Sanchar Sewaks. The cost of training them will also be done by MOSPI. DoP already runs successful ventures with the State Bank of India for selling loan packages; ICICI Prudential for the collection of insurance premiums through post offices; with Reliance Money for the sale of gold coins; and with Western Union for money transfer. "We are exploiting our strengths, where they are not in conflict with our core business," says a senior official in the DoP.

Consumer price index is widely used to measure changes in the cost of maintaining a given standard of living. There are four types of consumer price indices: index for industrial workers, index for agricultural labourers, index for rural labourers and index for urban non-manual employees. The Central Statistical Organisation (CSO) in MOSPI will use the postal network for collection of data from agricultural labourers and rural labourers. "It will provide us current data and an expanded base in rural areas," says Pronab Sen, chief statistician of India and secretary of MOSPI.

Only about 75 officers in the CSO are now doing the data collection for rural India. Now with the induction of Grameen Sanchar Sewaks to collect data, about 1,200 villages will be covered. Of 638,365 villages in India, 3,976 have a population of more than 10,000.

M. Rajendran

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Revisiting Japan's Crisis

by bill emmott

WHEN THE FINANCIAL CRISIS BEGAN IN THE US and Europe in August 2007, there was a lot of commentary about the lessons that could be learnt from Japan's "lost decade". Most commentators argued that Japanese policymakers made things in the Japanese economy a lot worse than they needed to be. That belief brought comfort to the rest of the world, such as India, China and other emerging markets, suffering in the wake of the US crisis: at least this time the mistakes could be avoided.

Now, a year and a half later, with the crisis getting worse every month, the lessons are looking rather different — and less comforting. It remains true that Japanese policymakers did not do a good job during the 1990s. But what is now becoming clearer is that there were some quite good reasons why they made their mistakes.

The US and Europe are caught in the Japanese trap. They are doing too little, for fear of public opposition

The biggest mistake that the Japanese Ministry of Finance is accused of having made is that it took too long to recognise that the banking system was insolvent. It tried to disguise the impact of bad debts on banks' profit and loss accounts, and seemed to expect the problem to solve itself once economic growth revived. The stockmarket bubble burst in 1990; the property market bubble burst in 1991-92. Yet, the ministry did not start to nationalise banks or recapitalise them for more than five years.

Time has moved far more quickly for the US and European policymakers. They felt obliged to start nationalising some financial institutions in 2007-08, and to provide public money to boost some banks' capital during October and November of 2008, and again during February 2009. They have also tried to use big programmes of public spending. The latest and biggest was the $787-billion one proposed by President Barack Obama as soon as he entered office in January.

So, while the Japanese tried fiscal policy (that is, public spending and borrowing) first and only attempted bank nationalisations and recapitalisation much later, the US and Europeans are taking these steps almost simultaneously. Partly because the economic impact of this financial crisis is global and becoming much more severe than the Japanese crisis of the 1990s, the policymakers are moving with more urgency. They think that Japan made a mistake by relying only on fiscal policy at first.

However, in the past few months, my feeling is, US and European policymakers have at last begun to understand why the Japanese authorities acted in the way that they did. They are coming to realise that they are confronted by two huge problems, each of which complicate the solution to the other.

The first problem is that of knowledge amid an evolving financial situation. In theory, what should be done is that banks should add up all their bad debts, and governments should force them to write off those debts or buy them from the banks for a small sum. The trouble is that banks do not know how many of their debts are really bad. Their holdings of complicated derivative securities — the instruments that caused the bubble and this crisis — are almost impossible to value, now that the market for them has collapsed. But also, as the global economy goes into recession, more debts are turning bad, as more companies go bankrupt or default on their obligations.

Japanese interventions in the 1990s seemed inadequate. But that is because the problem kept on getting bigger. And the policymakers faced the second big problem: growing public opposition to the use of public money to rescue banks and other financial institutions, combined with growing concern about the future size of public debts.

Both of these problems now confront the Americans and Europeans too. They have injected public money into banks, but are reluctant to nationalise them. They have produced many plans to deal with bad debts. But these are looking increasingly inadequate, while the use of public money becomes increasingly unpopular.

The US and Europe, as a result, are finding themselves caught in the Japanese trap. They are doing too little, for fear of public opposition and in the hope that economies will improve; but as a result the ultimate cost is likely to increase.

The real lesson from Japan is that governments have to persuade the public that an expensive rescue of the banks is absolutely necessary, or else they have to ignore the public's opposition and be prepared to lose office in the next election. To ensure that the cost does not keep rising, they need to move quickly to nationalise weak banks, and to write off their bad debts. It will look appallingly costly. But it will be cheaper in the end, and is the only real way to avoid another lost decade.

The author is a former Editor of *The Economist*.
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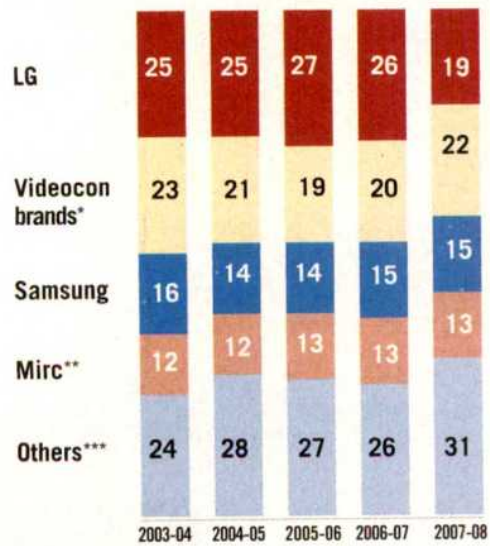
by Feroz Ahmed with M. Rajendran & Janhavi Abhyankar

TRIBHUWAN SHARMA

POSITIONING MUDDLE
LG's bid for the premium segment and Samsung's pursuit of market share have backfired

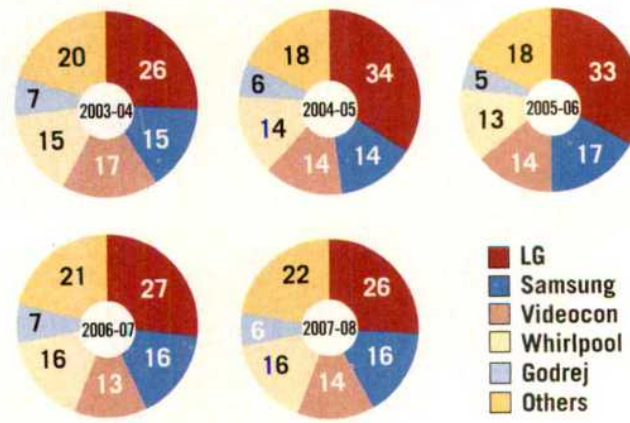
IN TERMS OF MARKET SHARE..

TELEVISIONS



*Includes Videocon, Sansui, Akai, Hyundai, Kenstar & Toshiba
**Includes Onida & Igo brands ***Includes Sony, Haier, TCL, Philips, Hitachi and Sharp

WASHING MACHINES



LG and Samsung are recalibrating strategies to regain market power and cope with the slowdown

IF it ain't broke, don't fix it. That, in retrospect, may be the idiomatic advice the dynamic Korean duo of LG and Samsung never got. For nearly a decade, their Indian subsidiaries LG Electronics India and Samsung India Electronics looked invincible. They snatched nearly half of the Indian consumer electronics and home appliances market from Indian, Japanese, American and European brands by offering contemporary, technologically advanced products at competitive prices. And they forced closure of regional brands such as Beltek and Weston, and relegated big global brands such as Electrolux, Whirlpool and Sony to munch on the crumbs in the market.

But two years ago, setting aside their time-tested strategies that got them to the top, both decided to alter strategies. That adventurism has left them bruised and vulnerable. However, the economic emaciation now is forcing them to recalibrate their mistaken strategies.

Envy And Pride

Since entering India in the late 1990s, the two Korean firms had chosen their comfort zone in the market, out of each other's way. Samsung opted for premium positioning and gave priority to margins over market share while LG chased volumes and market leadership. Having captured half of the market in key product categories — televisions, refrigerators, airconditioners and washing machines — the duo began to pursue agendas that were more driven by corporate pride than by market realities.

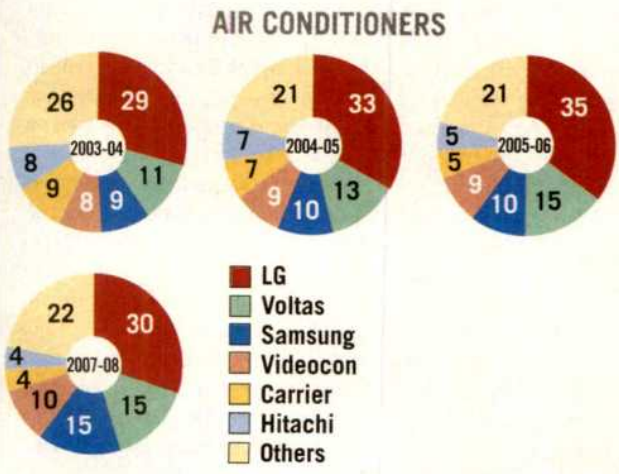
Come 2007, they tried to usurp each other's turf in a fit of branding schizophrenia. In January 2007, both companies got new bosses who brought new mandates with them. H.B. Lee succeeded S.H. Oh as the head of Samsung India Electronics operations and proclaimed market leadership as his agenda by simultaneously riding the stallion of premium products, and the mule of the mass products.

At LG Electronics India, Moon Bum Shin replaced K.R. Kim (the architect of LG's market dominance and now the vice-chairman of rival Videocon's durables business) and brought with him the new global LG agenda of gentrification of the brand's image and increasing profit margins by pushing premium products, albeit tolerating the company's staple of mass products.

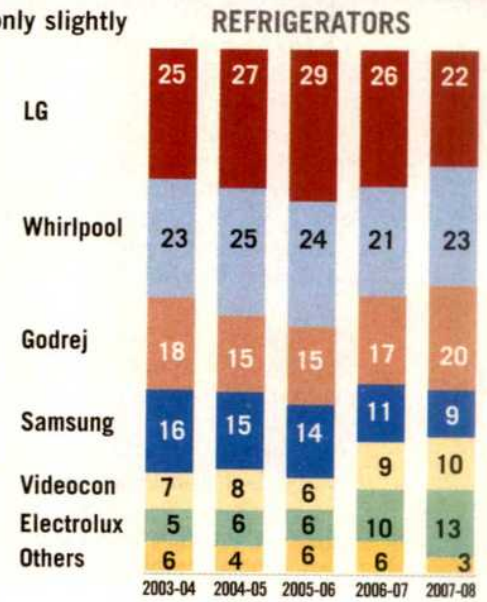
Experts watched this transmogrification with amusement and curiosity. "In reality, all companies came to India for the belly of the market, which is the mass segment, and have attempted to create a halo around their brands to make those aspirational too," quips C. Ravi Shankar, manager-strategic and competitive intelligence transactions services at the consulting firm, KPMG India.

The Koreans at Samsung India had never

LG has lost market share, while Samsung has gained only slightly



Data for 2006-07 was not available



GRAPHICS: NEERAJ TIWARI

All figures are in per cent

Source: CRISIL

THE GAINERS

MASS FOCUS
V.N. Dhoot, chairman, Videocon Group

BOUNCING BACK
J.N. Godrej, CMD, Godrej & Boyce Mfg. Co.

PRESTIGE LEADER
Masaru Tamagawa, MD, Sony India

- **VIDEOCON** has gained market share in televisions and airconditioners
- **GODREJ** has gained market share in refrigerators
- **SONY** has emerged stronger in the premium LCD television market and is able to hold price even during downturn

been quite at home with the fact that LG was twice the size of Samsung in India, when the reverse was true back home. In 2007, in India, LG's Rs 9,500 crore revenues were nearly twice that of Samsung India's Rs 5,200 crore, while in Korea Samsung had revenues of $105 billion compared to barely $44 billion of LG.

On the other hand, LG tried to turn a new leaf globally in January 2007 with Yong Nam taking charge. Nam desired that LG become an aspirational brand from an affordable, functional one. He declared LG's new brand identity to be linked to consumers' self-expression, whereas LG's traditional positioning was serving consumers' daily needs with affordable yet smart products.

"We want to dominate the market through innovation and not through prices," LG's M.B. Shin had told *BW* when he took charge in India, echoing his leader's new agenda. Shin's rationale was that the growth of Indian consumer durables market was slowing down to 10-15 per cent a year from the heady 30-40 per cent of the early 2000s and, as a result, the margins were getting eroded at the low end of the market. Besides, he contended, Indian consumers were beginning to seek beauty and individuality in home appliances just as in personal accessories.

Face Off

Samsung India, which was brought up on the aspirations of becoming a Sony and looking down on LG as a low-brow bargain brand, suddenly had to get off that pedestal and fight LG and local brands such as Videocon, Onida and Godrej on price. The company started offering entry-level products that were competitively priced against LG and other price-aggressive brands. For example, the company sells '3-series' LCD televisions while also selling the upmarket '5-series' and '6-series', which are priced slightly above even Sony's LCD televisions. The '3-series' is priced about Rs 1,000 below LG's entry-level LCD televisions.

To generate volumes, Samsung also extended its distribution network beyond its mainstay of big cities to smaller cities and towns. According to R. Zutshi, deputy managing director of Samsung India, the company has expanded its dealer network by 30 per cent in 2008 and its branch offices have been increased from 20 to 50. Market sources say that Samsung also began to compromise on margins in pursuit of market leadership and gave dealers deep incentives. Samsung's new approach delivered the intended result, but also some unintended ones.

In 2008, Samsung managed to narrow the gap between itself and LG in India to one-third from about half within a year. In 2008, Samsung India generated revenue of about Rs 8,670 crore compared to LG's Rs 10,750 crore. Also, it managed to raise its market share, not dramatically yet significantly. Its share went up to 15.5 per cent in 2007-08 in the television market from 14.4 per cent in 2005-06, to 16 per cent in the refrigerator market from 14, and to 15 per cent from 10 in the airconditioner market. It lost 1 per cent market share in the washing machine market though, slipping to 16 per cent from 17 per cent.

The unintended results were that its margins came under strain and its brand image got compromised. Market sources say that Samsung has ended 2008 in the red though the company denies it, albeit without offering any numbers to prove its claim. It has paid the price for getting into a pricing scrap at a time when input prices were shooting up — the cost of materials, wages and freight increased by more than a quarter in 2007-08. Moreover, trying to straddle the two horses at the same time — the premium segment and the mass market — dented the prestige of the brand. Today, many dealers are selling Samsung products at a 10-15 per cent discount to push stocks, just as for LG products, whereas Sony is able to hold its prices.

In comparison, LG's problems are starker. It has lost 3-7 per cent market share in every major product category over the past couple of years. Believing that the mass market was for keeps and focusing on the higher end

of the market in its advertising and marketing efforts has allowed others, including Samsung, to nibble at its main market. In 2008, according to M.B. Shin, 70 per cent of the Rs 370-crore advertising budget of LG was spent on premium products such as design-intensive Scarlet LCD televisions, Nimbus refrigerators, and talking washing machines, whereas its mass products — traditional televisions, direct-cooling refrigerators, semi-automatic washing machines — received almost no exposure on television at all. Equally importantly, the company loosened its grip on the durables trade as Shin decreed against pushing products through distribution channel at any cost. Shin insisted that LG rely on its brand prestige rather than its market muscle.

AMIT VERMA

COMPETITION KILLER
K.R. Kim, former CEO of LG Electronics, now heads Videocon's electronics business

Shin's predecessor K.R. Kim was a feared man in the consumer durables business. His marketing and sales team rode roughshod over both the trade and the competition by relentlessly running competition-killing dealer incentive schemes, consumer-pulling freebies and loading of ever-increasing stocks on dealers to grab their inventory and display space. "People now think that LG has lost its nerve, though we believe we are creating brand power," says Amitabh Tiwari, LG's head of consumer electronics business. While LG's profitability improved from low single-digit per cent to mid single-digit per cent level in 2008, the inflation and lack of pricing power in a market hit by scarce and expensive consumer finance and the consumers' propensity to sacrifice on aesthetics and features to save money made its new gamble look like a mistake.

Lip-Smacking Rivals

The once-trounced rivals exploited the opportunity the catfight offered them. They had also learnt their lesson along the way and began to offer updated technology and design at competitive prices. Videocon and Godrej, in particular, targeted the value-for-money segment of the market, which LG had begun to ignore somewhat. They also hurt Samsung in the mid-market, albeit Samsung was able to compensate for that in the low segment. Multinationals Sony and Whirlpool also fished in the troubled waters by pushing low-priced flat-panel televisions and semi-automatic washing machines, respectively. As a result, in the television market, Videocon has increased its market share to 22.8 per cent from 19.2 per cent in 2005-06.

Over the same period, refrigerator specialist Godrej has pushed up its share of the market to 18 per cent from 15 per cent. In airconditioners, Videocon's share has entered double-digit for the first time in this decade. In washing machines, category specialist Whirlpool has regained its lost market share considerably to move back to 16 per cent from 13 per cent in 2005-06. During this period, LG's market share has shrunk in these categories by 3 per cent to 7 per cent.

The competition is chuckling. Says Videocon Industries Chairman Venugopal Dhoot: "The Koreans are struggling because their perspective has been that the market is transitioning towards the high-end, quality market and that is where the money is. However, the fact is that the segment is beginning to stagnate."

Tiwari of LG concedes that the traditional cathode ray tube (CRT) television is still 90 per cent of the television market in India in volume terms, and it is expected to grow at least 10 per cent in 2009 despite the economic downturn and a high base of 11.2 million units as of 2008-end. LG itself garnered one-fifth of its total revenue in 2008 from CRT televisions. In comparison, the flat panel televisions' (LCD and plasma) 100-150 per cent a year growth of the past few years is expected to trip a bit because consumers are expected to postpone upgrading from traditional CRT televisions due to absence of financing or uncertainty of earnings.

The same holds true for high-end frost-free refrigerators, fully automatic washing machines and feature-rich airconditioners. Direct cool refrigerators, semi-automatic washing machines and basic airconditioners are expected to

STRATEGIC SHIFT

Where they went wrong:

SAMSUNG

- LG decided to go premium and ignored its mass-market base
- Samsung decided to chase volumes and compromised the brand
- LG failed to hold market share and Samsung failed to hold prices

What they are doing about it:

- LG is paying more attention to developing low-end products
- Samsung is prioritising technology leadership along with market leadership
- LG is increasing focus on the rural markets, while Samsung is adding smart features

SHIN VS SHIN

Jung Soo Shin, Samsung

- Has to stop chase of LG and focus on catching up with Sony
- Needs to retrieve Samsung's brand and pricing power without sacrificing growth
- Has to reach out to the semi-urban and rural markets

Moon Bum Shin, LG

- Has to stem the slide in LG's market share and protect market leadership
- Has to push big volumes without compromising margins or antagonising dealers
- Needs to spend more on marketing value-for-money products

be the flavour for 2009, unless the producers can bring down the prices of the new-technology products dramatically.

At such a time, Sony says it is confident of holding prices and even upgrading its niche market. "Our target audience continues to be the top end of the customer pyramid and their purchases are less likely to be affected by economic downturn or lack of consumer finance," says Masaru Tamagawa, Sony India's managing director.

However, even Sony has not been able to resist going after the entry-level segment among premium products, apparently because LG has not defended it well. Though it has exited the CRT televisions market in 2008, it has introduced T-series LCD televisions that are priced below LG and on a par with Samsung's entry-level LCDs. "I'm happy that Sony is trying to fight us, because it will raise us in the public esteem while bringing them lower," says Tiwari.

Another challenge that Samsung and LG face, the latter to a lesser degree, is that the indebted urban consumers may not buy much in 2009, and the battle for sales may shift to the small cities and rural areas. According to Videocon's Dhoot, because of their pursuit of the upgrading consumers, the Koreans will struggle in rural areas where hardy, functional products will rule.

"All bets are on rural markets now where the usage of appliances is still low," says George Menezes, Godrej Appliances' chief operating officer. "We've observed that surprisingly the tier-II cities have been opening up to products like LCDs," he adds.

Mid-course Correction

In this scenario, it is back to basics for both LG and Samsung. LG generated one-third of its revenues in 2008 from semi-urban and rural markets, thanks to its willingness to continue with low-end products even as it tried to move up the value chain. It still sells more than 50,000 curved screen televisions every month in rural India where consumers are unable to afford an LCD screen. Moreover, it costs little in marketing expense to LG. "This year, we'll strengthen our low-end product range with rural consumers in mind, since demand is now coming mainly from rural areas," says Shin. In 2009, he expects rural sales to contribute up to 45 per cent of the company's targeted Rs 12,500-crore turnover. He expects stiff competition from Godrej in direct cooling refrigerators and from Videocon in semi-automatic washing machines.

Samsung, on the other hand, is going to use its increased reach in the smaller cities and towns to take advantage of the shifting market. However, it would rely heavily on its familiar plank of technological innovation and aesthetics to woo its traditional constituency of urban consumers. "Today, the customer is internet savvy and travels abroad. We have to provide him the product for which he is willing to pay. If we do not, we lose our market for that product or sub-category," says Zutshi.

The new President and Managing Director at Samsung India, Jung Soo Shin, has come with a mandate that is consistent with his predecessors' legacy of pursuit of market leadership albeit it is tempered with the familiar proclivity towards brand esteem. "We will be looking at leadership in the Indian market not only in terms of market share but also technology leadership," he says.

This may develop into an absorbing Shin versus Shin show in the coming months, as the two companies, as well as other rivals, will be unveiling their 2009-10 product lines in late March and early April. Besides recovering from the mistakes of the past couple of years, both the Shins will have to deliver at least double-digit growth and decent profits to the mother companies back home that have been rocked by more than half a billion dollar losses in the December quarter following poor sales around the world.

The competition is revelling in schadenfreude. "India is crucial to LG and Samsung, especially as the Korean market is in the dumps," says Videocon's Dhoot. LG's Shin will be under greater pressure since he inherited a formidable market leading company and his genteel strategy will be slow to deliver results.

But, LG's Tiwari issues a warning to the rivals: "We've put away our guns, but we've not forgotten how to shoot."

With inputs from Noemie Bisserbe

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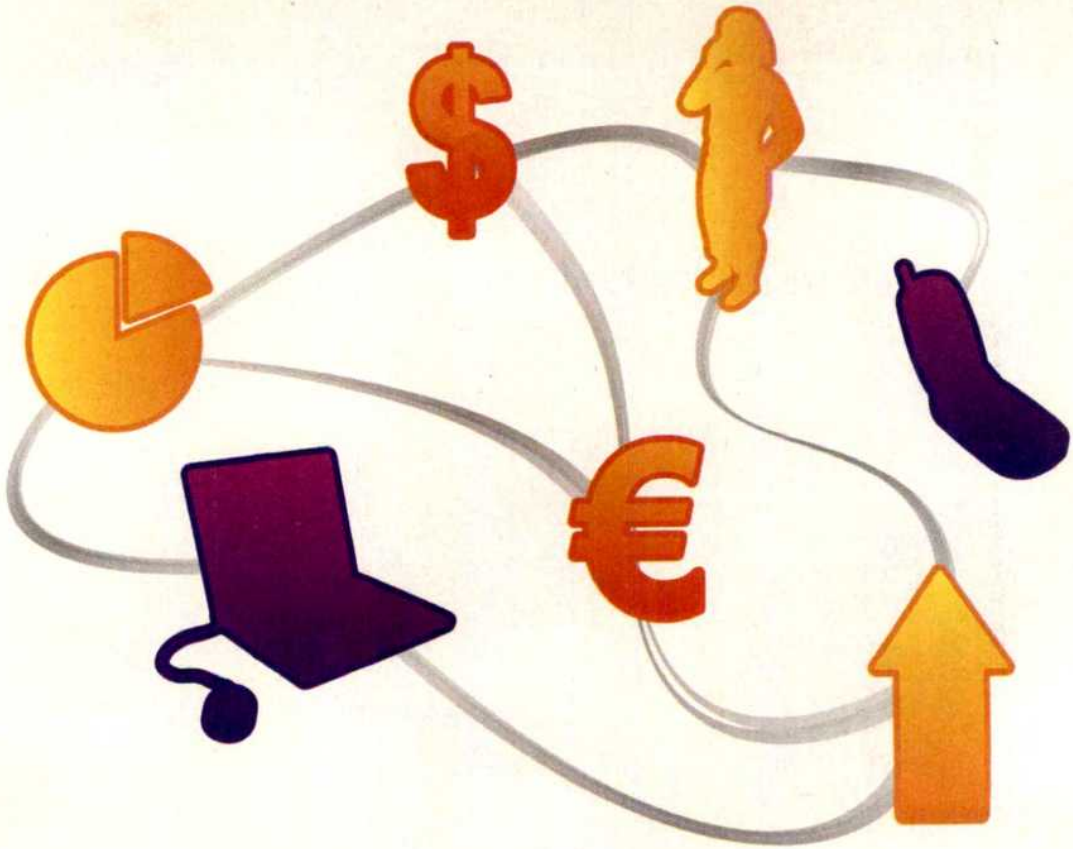

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(Source: Nokia Siemens Networks)

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Dangerous Politics

by paul samuelson

AFTER THE GREAT STOCKMARKET CRASH IN OCtober 1929, new Republican President Herbert Hoover and his tycoon Secretary of the Treasury Andrew Mellon foolishly opposed quick stimulus public macro-programmes. That dreadful error ruined forever their reputations in history.

Economic science has learnt much since then. Alas, however, President Barack Obama's excellent team still is being limited and thwarted by Republican congressional opponents. That's politics — dangerous politics.

Perhaps more surprisingly, a number of conservative macroeconomists have signed up as pessimistic opponents of vigorous government stimulus of the 'real' economy now. Why would well-trained economic scientists want to repeat old errors at a critical time?

Why would well-trained economic scientists want to repeat old errors at a critical time?

It is an interesting fact, although not an explanation, that some of them are repeating an old Harvard syndrome. In the early 1930s, Harvard's stars included such famous names as Joseph Schumpeter and Edward Chamberlin. Both led the charge against Roosevelt's New Deal Recovery Programme.

Joseph Schumpeter put into the record that depressions are good things, not bad ones, because they provide "catharsis" (whatever that means in this context) of the previous boom's distortions. A depression is, in fact, just what the doctor ordered!

Schumpeter was not alone. Another famous Austrian, Friedrich Hayek, then resident in the UK, earned perpetual guilt for similar insistence on limiting any expansion of credit during the 1931 deflation. It is reported that, in a London seminar deep in the Depression, J.M. Keynes' young associate, Richard Kahn, asked Hayek: "Do you mean that if I borrow a pound from you and spend it on consumption, I am making the depression worse?" Hayek replied: "Yes, and it is very complicated to explain why." But it is easy to explain why Hayek's reputation as a macroeconomist collapsed.

This was not an Austrian peculiarity. Edward Chamberlin, the celebrated inventor of the theory of monopolistic competition, contributed to the critique of the New Deal the loony view that depressions were "impossible" because demand could never fall short of supply. No wonder then that a Boston newspaper ran a glaring headline: "Harvard's first team strikes out".

History is in a way repeating itself. Another pair of well-known Harvard economists, Greg Mankiw and Robert Barro, seem to be led by a Hoover-Mellon-style conservative ideology to want to limit and oppose Obama's recovery proposal.

Keynes and Kahn argued that in an economy with excess idle capacity and unemployment, a dollar of added government spending on goods would add more than a dollar to demand in total output. Their reasoning was that part of the extra private income earned in producing whatever the government bought in the first place would be spent by those who earned it. Current estimates of this 'multiplier' suggest that a dollar of public spending on goods generates, after some lag, about a dollar-and-a-half of total spending and output. Like all such estimates, this one is approximate and uncertain.

Today's followers of Herbert Hoover assert that the multiplier is much smaller, not 1.5 but perhaps 1.01, or 1.0, or perhaps even less. They are probably wrong about that, and the extreme assertions are absurd. Standard forecasting models, used in government and in the private sector, do best with multipliers near the 1.5 suggested here. A comparative study at the Federal Reserve Bank of Boston found that much smaller multipliers, as once advocated by Milton Friedman, work very badly. But even if public purchases of goods added only those goods to national output, that would be no reason to oppose them at a time when workers are being laid off and factories are closing because private buyers for their products cannot be found.

So how to explain such foolishness at this stage of the development of economic science and at a time when the real economy is in such urgent need of an expansionary impulse?

Two thoughts suggest themselves. One is that a long interval of tranquil economic growth, interrupted only by mild recessions, has lulled young macroeconomics into the belief that modern capitalist economies cannot have major failures of demand. The other thought is that it would seem that conservative ideology is being allowed to override good sense.

Good reputations take time to build. But in the unfair jungle of science, they can be lost overnight. Fortunately, after any bad call in economic modelling, one can take some comfort from the last sentence in *Gone With the Wind*: "Tomorrow is another day."

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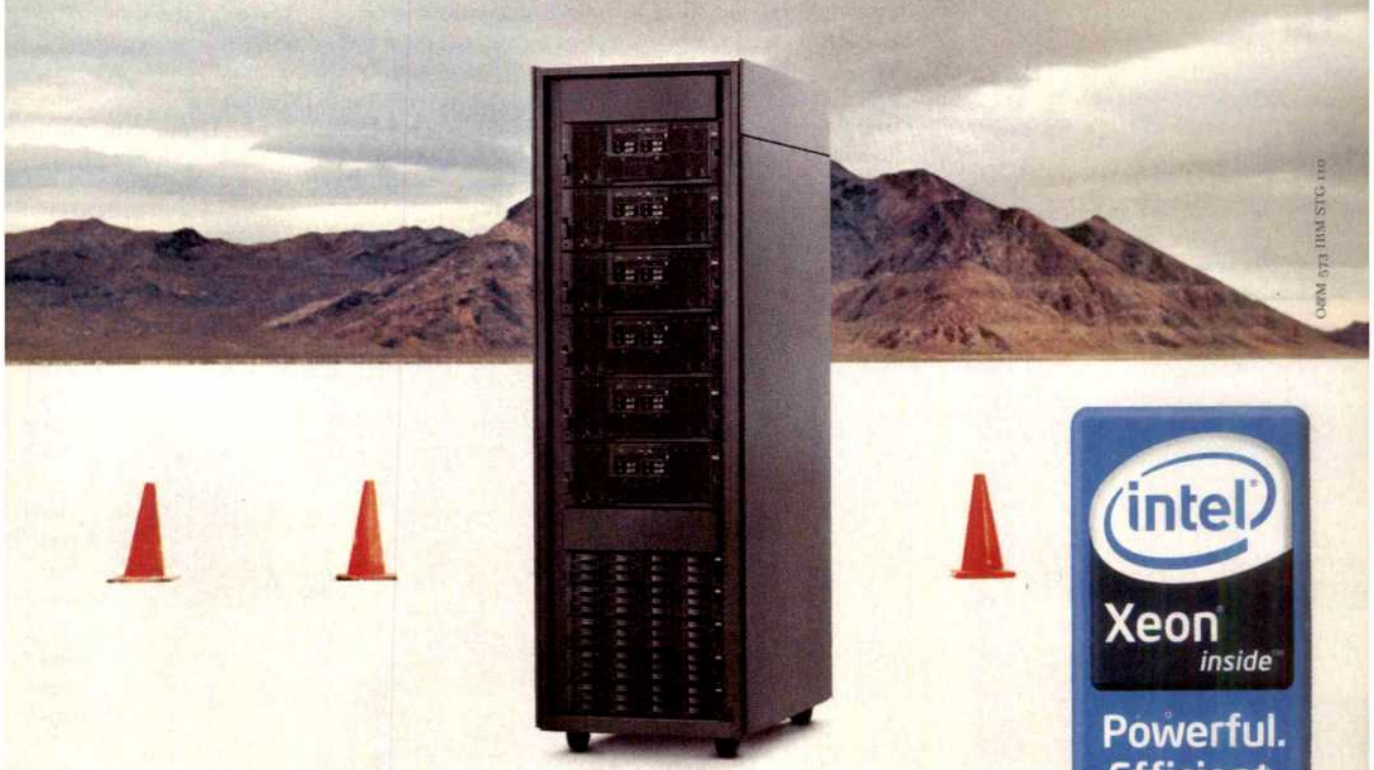

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India's Next-Gen Pharma Firms

NOEMIE BISSERBE

A pack of entrepreneurs is taking the drug discovery route

SUPREET DESHPANDE, 39, AMBLED INTO THE WORLD of pharma fascinated by, of all things, algorithms. A mechanical engineer by education, Deshpande realised early on what a non-scientific perspective could bring to a science-oriented industry. In 2002, Deshpande set up VLife Technologies in Pune along with a friend, Atul Aslekar, another engineer, investing all their savings in the start-up. Their idea was simple: screen all existing drugs for new therapeutic uses. It took about two years to develop an algorithm to design the right drug-screening technology before they could start a research programme, which was later transferred to sister company NovaLead Pharma.

Today, NovaLead is at the doorstep of a destiny that India's pharmaceutical Goliaths — Ranbaxy Laboratories, Dr. Reddy's Laboratories and Glenmark Pharmaceuticals, among others — wandered into and faltered despite a decade of research: discovering a new drug. Deshpande has 11 molecules in the pipeline, for conditions varying from cancer to acne, and claims his first drug, a diabetic wound treatment, could hit the market in the next two years.

As the great Indian generic drug success story loses steam, Deshpande and some other pure-play drug researchers could well become the next generation of Indian pharma companies to make their mark globally. Apart from Deshpande, this list includes Sundeep Dugar, who started Sphaera Pharma in Haryana last year; Sunil Bhaskaran, who set up Indus Biotech in

NOVALEAD

Founders: Supreet Deshpande (in picture) and Atul Aslekar
Set up in: 2007
Location: Pune, Maharashtra
Key investor: KPEG
Molecules in the pipeline: 11
Molecule in the most advanced stage: VLD02 Diabetic wound
Completed pre-clinical studies: VLI27 Pancreatic cancer
In pre-clinical studies: VLD01 Diabetic cataract; VLCA04 Gas gangrene; VLCB313 Fungal infections; VLF02 Fungal infections
In-vivo: VLN244 Colon cancer; VLD571 Malaria, VLDM01 Benign prostatic hyperplasia, VLIM88 Leukemia, VLD631 Melanoma

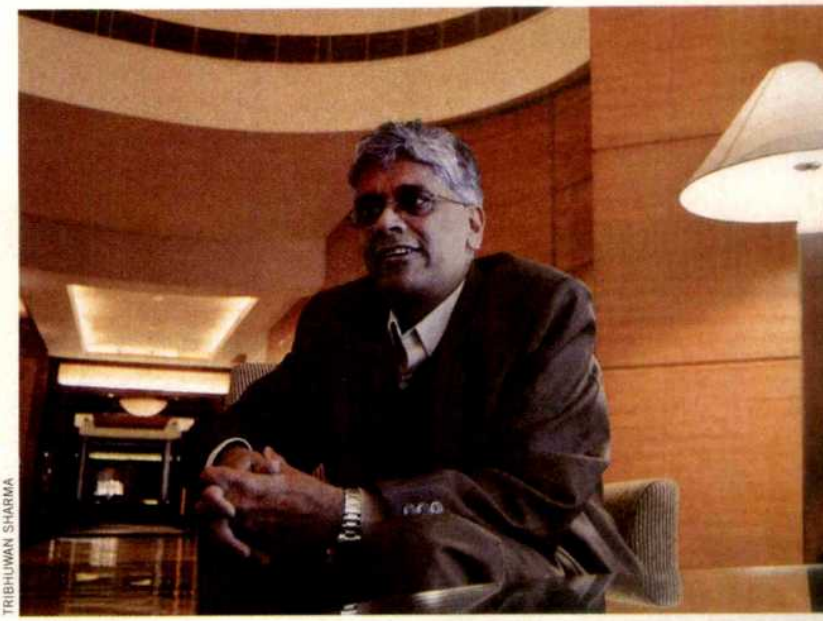
SATHEESH NAIR

Pune in 1997; and Swaroop Kumar, Glenmark Pharmaceuticals' former R&D chief, who set up his own research firm, Incozen Therapeutics, in Hyderabad last year.

"The great Indian generic drug story is over. Several companies are already on their death bed," says Nitin Deshmukh, head of the Kotak Private Equity Group (KPEG), the private equity arm of Kotak Mahindra Bank, which has already invested in NovaLead and Indus Biotech. "The next big opportunity is in new drug research."

The risks involved are enormous. New drug development is costly, success rates are low and investments take a long time to pay off. But a single new drug could generate annual revenues on a par with that of the total sales of an average mid-cap pharma company in India.

Deshpande, Dugar, Bhaskaran and Kumar are leading the pack in search of this magic pill, but the paths they have taken are radically different from each other.



TRIBHUWAN SHARMA

Old Drug, New Indication

Recycling old drugs by finding new therapeutic uses is not a new idea. For instance, a drug that lowers cholesterol levels could also decrease blood pressure. In fact, it is an art that Big Pharma — new drug inventors such as GlaxoSmithKline, Pfizer and Sanofi-Aventis — have mastered over the years to extend the patent life of their blockbuster drugs, though few have deliberately made it a business model.

Deshpande's software helped him discover that an existing intravenous tachycardia drug could be made into a topical cream that heals diabetic wounds, which lead to amputation of the lower part of the leg in about 20 per cent of the cases today. "I have learnt over the past few years that common sense is more valuable than anything else," he says. While the drug cannot be patented, the new indication can be.

Not only that, Deshpande hopes the drug will hit the market within the next two years. "We should be able to start human trials in March," he says. "The drug will first be tested on 30 patients. And if safety and efficacy can be established, 70 more will be enrolled, about half of them from the US and the rest from India." Since it is already an approved drug, the safety tests required are limited. NovaLead has consulted a firm in the US to design the trials before submitting the application to the US Food and Drug Administration (FDA). The drug will treat an unmet medical need, so it is also likely to get an 'orphan drug' status, which will speed up the approval process.

NovaLead is in talks with a consortium of international private equity funds that proposes to invest $8 million in the company, which would roughly cover the cost of clinical trials. In 2006, KPEG had already picked up a stake in the company. Deshpande has also submitted pre-clinical data to the American Diabetes Association that could fund about 50 per cent of the trials. Once the clinical trials are completed, NovaLead will license out the molecule, on which it could claim at least 30-35 per cent royalties on sales.

The company is developing brand new drugs as well, such as the pancreatic cancer treatment, which is about to complete pre-clinical studies on animals. Two other molecules are already under pre-clinical development — an anti-wrinkle application and an anti-acne treatment.

"The focus will first be on existing treatments," explains Deshpande. "We will license out the drugs as late as possible in the development process to be able to negotiate higher royalties on sale." For new drugs, NovaLead plans to license out the molecules after Phase I and expects royalties to the tune of 15 per cent.

SPHAERA PHARMA

Founder: Sundeep Dugar
Set up in: 2008
Location: Manesar, Haryana
Key investor: Baring Private Equity Partners (India)
Molecule in the pipeline: One oncology experimental drug in Phase II of clinical trials (in-licensed from a US-based company)

Reversing Traditional Wisdom

Unlike Deshpande, Sphaera Pharma's Dugar is an industry veteran. A PhD from the University of California, Dugar was heading cardiovascular research at Bristol-Myers Squibb, and had already co-developed his first drug while working at Schering Plough, when Deshpande was still making his career debut in Bajaj Auto.

Dugar came back to India in 2005 to start his own firm, Advantium Pharma, a contract re-

search organisation (CRO) that was subsequently merged with Hyderabad-based Sai Life Sciences to form Sai Advantium Pharma. He made a quick exit from the company to set up Sphaera in Manesar, with a clear and new ambition: come up with a new drug in 18-24 months.

Reversing the trend, Sphaera plans to in-license drugs from research firms in the West, and not the other way round. "We are close to completing a deal with a US-based company for an oncology molecule in Phase II of clinical trials," says Dugar. To fund the acquisition, he has roped in Baring Private Equity Partners (India), which will invest $15 million.

"The initial upfront payment for the molecule is, however, insignificant," he explains. "But we will give the US firm milestone payments as the development of the molecule progresses." When the drug hits the market, Sphaera may pay 15 per cent royalties on sale to the innovator, which could also retain marketing rights for certain markets that Sphaera is not interested in.

Akhil Awasthi, partner at Baring, is also hoping the slowdown may throw up in-licensing opportunities. "Small discovery research firms — which are not able to raise new rounds of funding for further development of new molecules — may need to rapidly monetise their assets," he says.

The company has also started its own discovery research programmes. "We are looking at different models; we do not want to put any blinkers on," says Dugar. "Drug discovery programmes come in different forms and shapes. Our entry point in the drug discovery process may change. We may in-license, out-license or even partner other companies."

INCOZEN

Founder: Swaroop Kumar
Set up in: 2008
Location: SP Biotech Park, Hyderabad
Key investor: Alembic
Molecules in the pipeline: Research programmes for chronic, oncology and inflammatory diseases still in early discovery stages
Plan of action: Separate team to focus on collaboration programmes with Big Pharma through an innovative IP and cost-sharing model

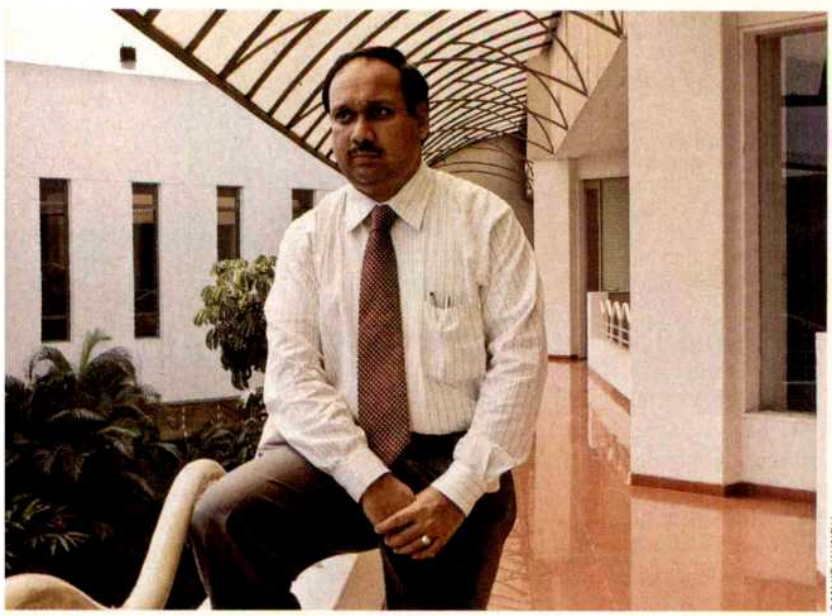
New Collaboration Models

Collaboration is also the route that Kumar, credited with the development of several molecules at Glenmark, has chosen to follow at Incozen. His ambition is not to become another CRO. He has devised an elaborate business plan inspired from a Belgian drug research company Galapagos.

As soon as it identifies potential drug targets, Incozen will sign an agreement with a pharma firm, giving the latter the option to in-license the molecules when and if they reach Phase I or II of clinical trials. Upon signing of the agreement, Incozen will receive an upfront payment that will help fund further development. As the molecule progresses, Incozen will receive new milestone payments, and once the drug is marketed, royalties on sales. "This strategy will allow us to significantly mitigate the risks and cost of new drug development," says Kumar.

A separate team will also be working on the company's own drug discovery programme. "Our focus is on chronic, oncology and inflammatory diseases. The discovery process is progressing fast. We hope to get a new molecule into clinics within the next two years," says Kumar.

Vadodara-based Alembic has picked up a stake in the company and Pranav Amin, a director at Alembic, is also chairman of Incozen. "NCE (new chemical entity) was an area that we were not present in," says Amin. "It is still early to comment on our plans, but we do have manufacturing and marketing capabilities that Incozen will need to bring out its new drugs."



SANJIT KUNDU

Going The Botanical Way

Herbal or botanical drugs have long been derided as placebo treatment that may not cause much harm, but not really treat a serious ailment. Indus Biotech's Bhaskaran has taken it up as a mission to change this perception.

The drug research firm, which he founded in 1997 with Rajan Srinivasan, has an impressive pipeline of nine molecules for chronic diseases ranging from diabetes, HIV, arthritis to Parkinson's. The aim is not to sell one more dietary supplement or over-the-counter drug, but to introduce a drug under the new framework set up in the US in 2004 for prescription botanical products. The company has developed an innovative technology for isolating, purifying and stabilising botanical products — often a stumbling block for companies that want

to scale up production of herbal drugs.

Indus has already filed an IND — investigational new drug application, essential to start clinical trials under the US framework — for an HIV drug that the firm claims could replace chemotherapy treatment.

The project is ambitious. So far only one product, a cream for external genital and perianal warts, has made the cut in the US, although some 300-400 botanical prescription drugs may be under development worldwide, according to Jayesh Chaudhary, managing director of Vedic Lifesciences, a Mumbai-based CRO that focuses on botanical products.

Four more molecules targeted at obesity, diabetes, arthritis and Parkinson's have also completed pre-clinical trials (study on animals). "The company is on the verge of filing another IND," says Kotak's Deshmukh, who invested in the company in June 2007.

What has partly allowed the company to speed up the development process is that it has marketed most of its experimental botanical drugs as nutritional supplements, to establish their efficacy prior to committing resources for further development.

However, while there could be considerable benefits from using botanical products to treat patients suffering from chronic illnesses, and who often need to be under medication for a lifetime, the market for prescription botanical drugs remains limited, points out Chaudhary. "Doctors continue to look at botanical drugs with suspicion, and the chemical lobby is very strong in the US," he says.

This may have prompted Indus Biotech to also develop several NCEs derived from herbal sources, such as its drug targeted at respiratory diseases, now about to be tested on animals. Company officials declined to respond to our queries. Deshmukh, however, says that he has great hopes for the company. "It is an outstanding company. Just wait and see."

The Old Order Is Changing

Industry observers have long been expecting Indian generic drug makers to invent a new drug. Some have had successes — Dr. Reddy's, Ranbaxy, Torrent and later Glenmark licensed out experimental drugs to Big Pharma — but often short-lived. As their R&D pipeline got thinner, global pharma companies started competing to in-licence new molecules under development worldwide.

However, molecules licensed out by Indian firms were returned, except one — Glenmark's asthma and COPD (chronic obstructive pulmany disease) drug Oglemilast. "The kind of focus required for new drug research is very different than for generics," says Sanjiv Kaul, a veteran of the Indian pharma industry and managing director of private equity firm ChrysCapital.

Also, Indian companies will need to innovate to survive in the long run, says Awasthi. "The traditional generic business model is eroding." Ever-rising competition is putting Indian generic drug makers under increasing pressure, and it is becoming harder for them to compete with giants such as Israel's Teva Pharmaceutical Industries, which incidentally also markets two patented medicines.

Contract research services, which have witnessed tremendous growth in India over the past five years, may have been a stepping stone for Indian firms to start making their mark in research globally, but margins are already coming down — rates have declined to $45,000 per chemist today, compared to $70,000-80,000 four years ago — and CROs' ambitions to run their own research programmes alongside never really materialised.

Companies such as NovaLead, Indus Biotech, Sphaera and Incozen offer new hope to Indian medical research. Sure, some may have to shut shop within a few years — pure-play research means enduring a long dry patch with no revenues and escalating development costs. Raising further funds for new research may also prove difficult, especially in these dire financial times.

Last year, ICICI Venture and Citigroup Venture Capital International burnt their fingers, casting a dark shadow on the whole industry. The funds, which had invested $22.5 million in Dr. Reddy's new drug development arm Perlecan Pharma in 2005, sold their shares back to Dr. Reddy's last July as molecules failed, losing $4 million in the process.

But the potential rewards of these ambitious projects are tremendous. These firms could create a new industry — on the lines of that of small biotech companies in the US — or become potential acquisition targets for Big Pharma or Indian generic drug makers that have been unable to innovate, points out Deshmukh. Going by drug research statistics — one in 20 molecules in the pre-clinical stage makes it to the market — and considering the four companies have 16 molecules in pre-clinical or more advanced stages of development, there is a fair chance that at least one may make it.

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Key investor: KPEG
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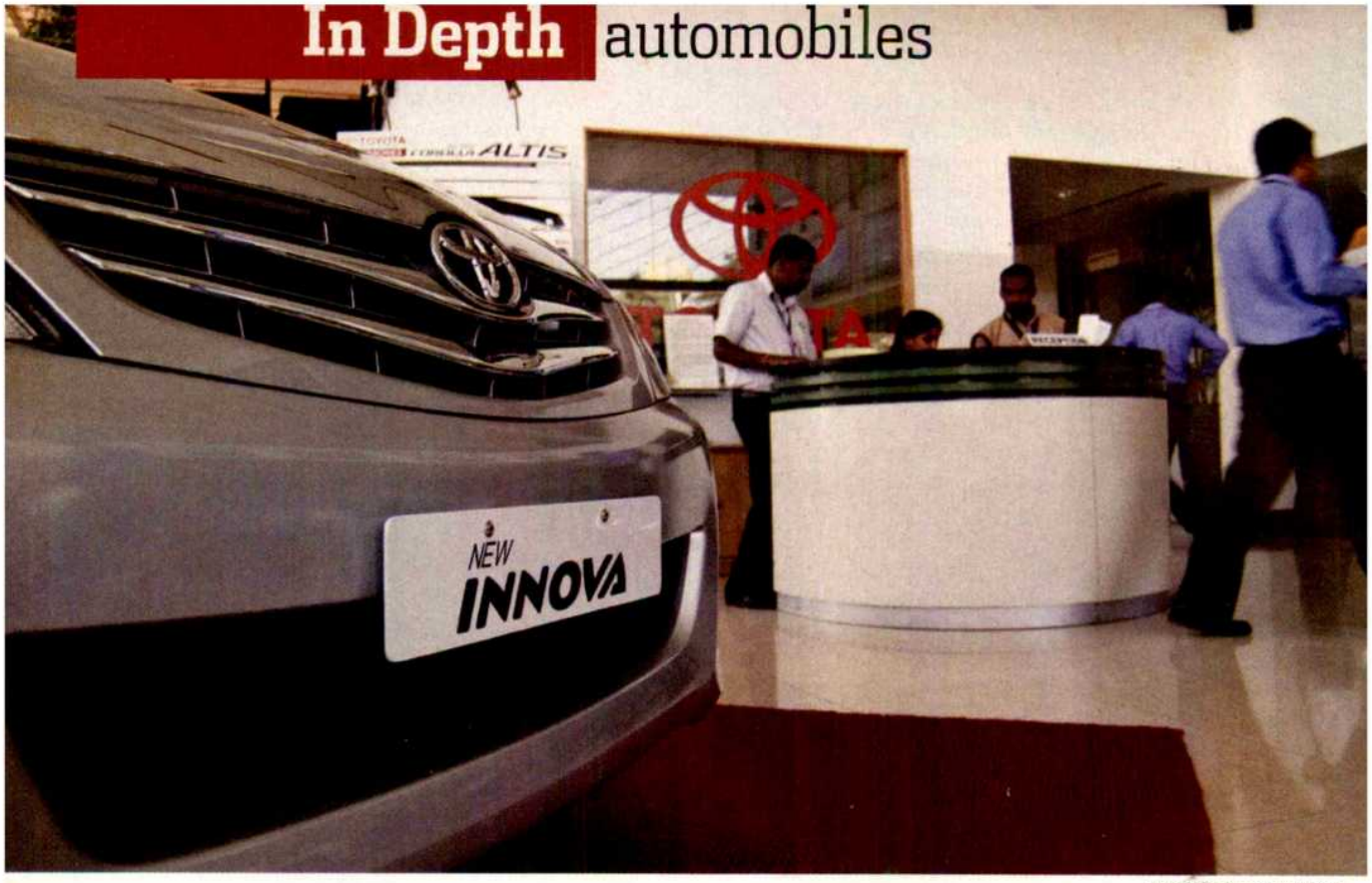

PHOTOGRAPHS: SATEESH NAIR

On The Wrong Track

by Vishal Krishna

Toyota is banking on its small car to regain market share

WHEN YOU HEAR MOZART'S 40TH SYMPHONY ON the shop floor of the Toyota Kirloskar Motors factory in Bidadi, a town outside Bangalore, it is the equivalent of an alert that the production line is missing a spare part. While its engineers quickly replace the spare part, Toyota's management is trying to decipher a similar warning from the Indian market.

At a time when the domestic car market was growing at an average of 14 per cent per annum, the Indian subsidiary of the world's largest car maker had been consistently losing market share — from 4.5 per cent in 2004 to 3.6 per cent in 2007 and 3.4 per cent in 2008. The mood is sombre in the factory as Toyota has just cut its production by 30 per cent, from its peak capacity of 77,000 vehicles. But the management says Toyota's priority in India has been more than cornering market share.

"The strategy for the past decade was to learn about the market," says Hiroshi Nakagawa, managing director of Toyota Kirloskar Motors. Nakagawa believes Toyota can still capture 10 per cent of the market by 2015 as he has pegged the company's hopes on a mass-market car to revive its fortunes by mid-2011.

Curiously, Honda, General Motors (GM) and Volkswagen have also set their target in the Indian market at 10 per cent. Whether Toyota ever gets there will actually depend on how smartly it can avoid repeating the mistakes it made in the decade when it was learning about the market. Company insiders admit that in the past two years, Toyota in India experimented so heavily with its price positioning that it lost track of its objectives. Somewhere along the way, the world's most trusted value-for-money brand in cars repositioned itself as a premium brand in India — and failed. Its new car, the Corolla Altis, which costs Rs 10.75 lakh is at least a lakh over the now phased out Corolla. Compare this to the Honda's Civic, which costs Rs 10.50 lakh — the Altis is in for some tough competition.

Incidentally, the Altis sells at Rs 7.78 lakh in the US and approximately Rs 10 lakh in Thailand (see 'Global Competition'). Toyota's most expensive passenger car in India, the Camry, retails at approximately Rs 21 lakh, while it sells at Rs 10 lakh in the US, Rs 19 lakh in Malaysia and Rs 17 lakh in Thailand. Both Altis and the Innova, being value cars in South Asian markets, are selling at a

PINNING HOPES: Even Toyota dealers in India are eagerly awaiting a mass market car from the company

premium here because only 56 per cent of the manufacturing cost of these cars is met by local supplies. But that is a specious argument since rival Honda has similar local content.

This January, Toyota raised the prices of its biggest-selling brand Innova by about Rs 50,000 for its base variant (Rs 7.15 lakh previously). But now, as the market heads south it is obvious that its strategy for both the cars have backfired. This move is testimony to the company losing market share in one of the largest consumer markets in South Asia. Corolla's volumes peaked in 2004 when it was priced most competitively. Unit sales that hit a high of 9,447 in 2004 have since been sliding to 8,974 in 2005, 7,168 in 2006 and 6,463 in 2007. Interestingly, in November 2008, sales of Toyota's Altis grew by 25 per cent, selling 7,568 cars, as it got its styling right, while Honda Civic sold 10,535 units, down 35 per cent.

Strategy Vacuum

Analysts believe that Toyota was so busy with China and Southeast Asia that India fell off its radar. Especially, since globally, in the year ended March 2009, the company is expecting its first annual operating loss in 70 years.

"India was on the back burner for Toyota's Asia-Pacific strategy, until now," says Ammar Master, senior market analyst for Automotive Resources Asia in J.D. Powers, a global research firm, in Bangkok. Toyota, for instance, has built a very strong production base for pickup trucks in Thailand. While it sold about 54,000 units in 2007 in India, in China it sold a mammoth 496,000 units (60 per cent y-o-y growth) and in Thailand 283,000 units (2 per cent y-o-y decline). But Nakagawa says that is changing, "Other Asian markets are nearing saturation for us. The Indian market is our priority going forward."

This wait-and-watch strategy may have done irreparable damage to Toyota's chances of making it big in the Indian market and the company will now play catch-up when the market will be flooded with new products from competitors in a couple of years.

Losing Grip

Though Toyota's passenger car sales rose in FY2009, its utility vehicles sales dropped

	Apr '07-Jan '08	Apr '08-Jan '09
Passenger cars*	5,302	8,102
Utility vehicles#	37,901	32,781
Total	43,203	40,883

Figures are number of units sold; *Passenger cars include Corolla Altis and Camry; #Utility vehicles include Innova and Land Cruiser Prado

Source: SIAM

Global Competition

Toyota faces tough competition from cheaper Honda cars in India

HONDA	India	Malaysia	Australia	Thailand	USA	Philippines
Accord	17	19	12	20	10	17.58
Civic	10.50	15	7.6	12	7.94	8.5
TOYOTA	**India**	**Malaysia**	**Australia**	**Thailand**	**USA**	**Philippines**
Camry	21#	19	9.5	17	10	15
Corolla Altis	10.75	16	–	10	7.78	8.27

All figures in Rs lakh; #Camry is not built in India

Source: *BW* research

Even as Toyota is expanding its capacity at the Bidadi facility from 77,000 units per annum to 147,000 units by 2011 to accommodate a small car, rivals Suzuki and Hyundai have already built capacities of 800,000 and 300,000 and created a strong foothold in India. Although it is banking heavily on the small car, Toyota's offering may hit the market after Honda, GM, Volkswagen and Ford — all of whom have advanced considerably in their launch plans. "Toyota's small car, in the C segment, will be in for some competition. They needed to be in this segment earlier," says Master of J.D. Powers.

With Maruti Suzuki's Swift selling 5,000 cars a month even during the recession, Toyota will have its hands full in trying to figure out a way to compete in the clutter. To add to its woes, Mahindra & Mahindra (M&M) will be eating into Toyota's market share. M&M grew at 7 per cent last year and is looking forward to the performance of its new crossover car Xylo in 2009. It will compete directly with Toyota's bread winner — the Innova, which accounts for 80 per cent of the company's production. It sold only 43,957 cars between December 2007 and December 2008 and has seen a negative growth of 6 per cent compared to 2006-07. The February 2009 numbers for Innova are even worse; its sales have fallen by 42 per cent compared to the same period in 2008.

In the luxury segment, Honda has blown Toyota's Camry away with the Accord, which is about Rs 4 lakh cheaper. The Camry, which is not manufactured in India, has seen dismal sales over the past three months. Sales dropped by 72 per cent in February 2009 compared to same period last year. "Honda got the styling, the pricing and the design aspect right for the Civic and the Accord. They also maintained an edge over Toyota in the C segment because of the Honda City, where Toyota does not figure," says Karthik Ananth, engagement manager at Zinnov, a consultancy firm in Bangalore. He also says that Honda's 20-year presence in India, through the two-wheeler ventures, could

TRAINING THEM YOUNG

The seeds of Toyota's small car are being sown in the Toyota Kirloskar Technical Training Institute (TKTTI), a full-fledged boarding school for rural boys in Bidadi. "The school has 128 students and the first batch is still in the second year," says T. Somanath, TKTTI's principal. He says that these boys, most of whom are 17 years old, were economically backward and were selected after writing an exam conducted by the institute. They are trained in a three-year diploma programme, after which they are absorbed into the automobile industry.

Before Toyota came into their lives, the boys' dreams had not gone beyond their villages. Naveen B., whose parents were street hawkers in rural Karnataka, had managed to educate their son till Class X. "I have learnt to talk English in one year and am trained in global automobile engineering modules," says Naveen, a second-year student. These little engineers will be working in the new plant to build the small car.

"India is a complex business market because of the diversity and it is necessary to train youngsters to build business," says Hiroshi Nakagawa, managing director of Toyota Kirloskar. He believes that Japan took similar steps 60 years ago to create a culture of learning quickly and likewise India should achieve this goal of creating systems conducive to learning.

STARTING EARLY: Toyota's Bidadi institute trains 17-year-olds who will work on the company's small car

have given them some advantage over Toyota when it came to designing a sedan for the aspirational consumer.

Dealer Discord

While right pricing is Toyota's biggest challenge right now, dealer disenchantment is another. Most of Toyota's dealers feel the company should have been more proactive in introducing a car in the C segment.

This segment, where cars such as the Suzuki Swift, Hyundai Verna and Honda City compete, has been the fastest-growing segment. It grew by around 10 per cent in 2007, but slipped a little last year to 5 per cent, since the industry itself did not see any growth at all. "Toyota needs to enter this segment fast and we dealers have been waiting eagerly for a mass market car," says Meena Kirloskar, CEO of Ravindu Toyota, a dealer in Bangalore, who sells at least 2,500 cars a month for Toyota. She says that a dealer's margins largely come from the after sales service and that a mass selling passenger car could increase their profits. Another dealer, Pratik Malkan, CEO of Millennium Toyota in Mumbai, says, "The Qualis and the Innova were successful vehicles. But margins are thinning on these products."

Even Toyota's top management acknowledges the problem. "We agree that there is a need to fill the mass-market space. But there is no reason to feel left out," says Sandeep Singh, deputy managing director of marketing at Toyota in Bangalore. But the short-term prospects do not look bright for the company and all hopes lie on the dream of a small car.

In a forecast for Toyota's small car, J.D. Powers Asia Pacific shows that the small car, if launched towards the end of 2010, could begin selling 35,300 units in its first year and could reach 50,518 by 2013. However, J.D. Powers maintains that the Innova would still be the largest-selling vehicle for the company. But, planning during the slowdown has become a constraint for Toyota and the pile up of inventory has made Toyota's production fall by 38 per cent as of January 2009. "Toyota is not immune to the slowdown," says Nakagawa.

Hope Against Hope

To capture the market, Toyota has begun weaving a whole host of other things such as dealer preparedness, enhancing vendor capability and increasing production capacity to deliver on the company's brand image of 'quality'. "The small car might not be small at the end of the day," says Toyota's Singh. He says Toyota would launch a car, possibly a hatchback or a sedan, that could end up in the C segment. The company has already announced that its dealer network will grow from 82 to 150 by 2011. "Most of the vendors follow Toyota processes, up to 80 per cent, and with the new vehicle, these processes will completely be like that of the parent company," says Srivats Ram, managing director of Wheels India, a vendor based in Chennai.

Toyota Kirloskar Motors' fate now seems to have been left to its second coming in 2011. But all it has to do is to heed the Symphony-like warning in the factory and act instantly rather than wait to fulfil the prophecy of the success of its small car two years down the road.

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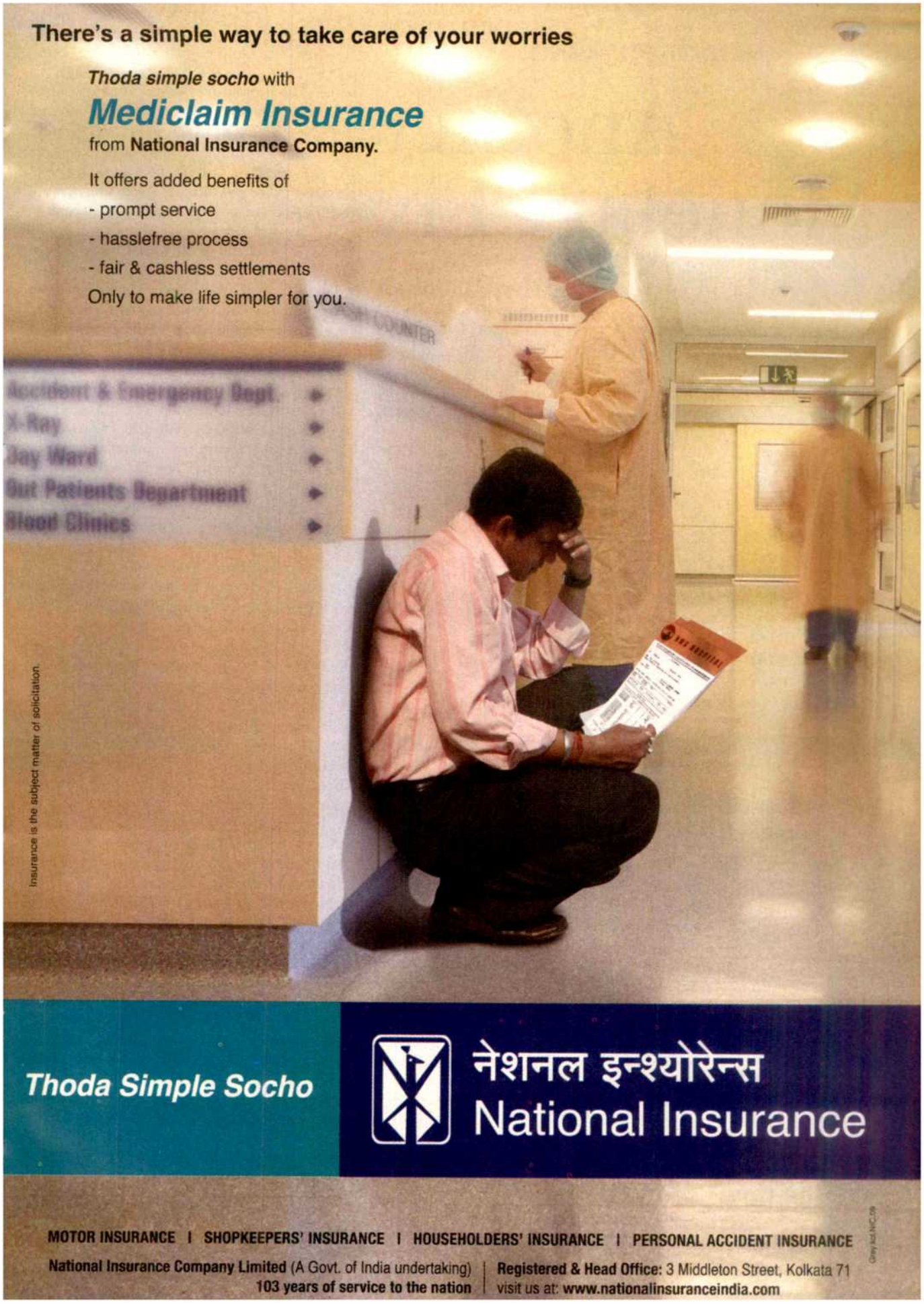
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Another Monetary Fix

by Raghu Mohan

Pumping In Liquidity

The RBI has consistently been cutting rates since August 2008, and has taken measures to maintain more than adequate liquidity in the system

RBI rate cut cycle

Date	Rev. Repo	Repo	CRR
30 Aug '08	6.00	9.00	9.00
11 Oct '08	6.00	9.00	6.50
20 Oct '08	6.00	8.00	6.50
25 Oct '08	6.00	8.00	6.00
3 Nov '08	6.00	7.50	6.00
8 Nov '08	6.00	7.50	5.50
8 Dec '08	5.00	6.50	5.50
2 Jan '09	4.00	5.50	5.50
17 Jan '09	4.00	5.50	5.00
4 Mar '09	3.50	5.00	5.00

Monetary stimulus since mid-Sep '08

Various liquidity enhancing measures	(in Rs crore)
CRR reduction of 400 bps	1,60,000
MSS securities unwind	63,045
Term repo facility	60,000
SPV for NBFCs	25,000
Various refinance facilities	80,000
Actual/potential liquidity enhanced by	3,88,045
1% permanent SLR cut	40,000

CRR: cash reserve ratio; MSS: market stablisation scheme; SPV: special purpose vehicle; NBFCs: non-banking finance companies; SLR: statutory liquidity ratio Source: Kotak Mahindra Bank

IN WHAT IS A CLEAR INDICATOR TO BANKS THAT they should cut interest rates, the Reserve Bank of India (RBI) on Thursday cut the repo and reverse repo rates — the rates at which commercial banks borrow from and lend to the RBI against government securities — by 50 basis points (bps) to 5 per cent and 3.5 per cent, respectively. The trigger for the cuts in policy rates is clear: despite slashing the cash reserve ratio (CRR) to 5 per cent from 9 per cent in mid-September 2008, banks have been reluctant to lend despite high demand.

The RBI's rate cuts are unlikely to stimulate the flow of credit

Bank credit growth touched a peak of 29.4 per cent (Rs 5,82,344 crore) on a year-on-year (yoy) basis on 10 October 2008 compared to the 23.3 per cent (Rs 3,74,054 crore) as on 12 October 2007. The story has changed of late — yoy credit growth decelerated to 24.3 per cent on 19 December 2008, as credit expansion during the period between 10 October 2008 and 19 December 2008 at Rs 30,889 crore was much lower compared to Rs 1,05,774 crore during the corresponding period of the previous year.

The latest data from the RBI shows that commercial credit has decelerated further to 19.7 per cent yoy as on 13 February 2009, compared to 22.7 per cent as on 15 February 2008 as credit expansion during the period between 19 December 2008 and 13 February 2009 at Rs 8,091 crore was sharply lower than that of Rs 86,978 crore in the corresponding period.

Will banks loosen their purse strings now? Unlikely. "While there will be a drop in deposit and lending rates, I see no reason why banks will lend more. Concerns over credit quality remain, and rate cuts are not going to change it," says Moses Harding, head of global markets at IndusInd Bank in Mumbai. Banks' prime lending rates now hover at around 12 per cent, with the one-year deposit rate at 8.25 per cent.

The third quarter results for banks show an uptick in bad loans. According to a research report from Sharekhan, a securities firm, while second quarter results had already indicated credit quality deterioration, "the significant jump reported by Canara Bank in gross bad loans by 60 per cent in the third quarter of FY09 took us by surprise".

But the rate cut is also beneficial for banks: the value of their government securities portfolio will go up, as yields tend to go down following the rate cut. True, the yields on 10-year and over bonds are not likely to fall, given the anticipated size of government borrowing. But almost all banks will show excellent profits for the fourth quarter — and perhaps for the full year — because of treasury profits.

So, what is in store going ahead? Rajiv Malik, economist at Macquarie Research, points out that there is potentially another 200 bps reduction in policy rates and CRR. "Rapidly falling inflation, increased downside risk to growth and hefty government borrowing requirements leave little room for the RBI to play tough," says Malik.

Most analysts do not anticipate any further rate cuts till the annual monetary policy review slated for 21 April 2009. Despite rate cuts, the expectations of GDP growth are also much lower; some pessimistic ones go as far as to suggest that growth for all of FY09 could fall to below 6 per cent. Rate cuts by themselves will not cut any ice, apparently.

According to Sonal Varma, economist at Nomura Securities, with the election code of conduct in place, the fiscal policy is largely constrained until after the election in May, leaving monetary policy as the first line of defence against a growth slowdown. All eyes will be on the RBI till a new government is in the saddle in New Delhi.

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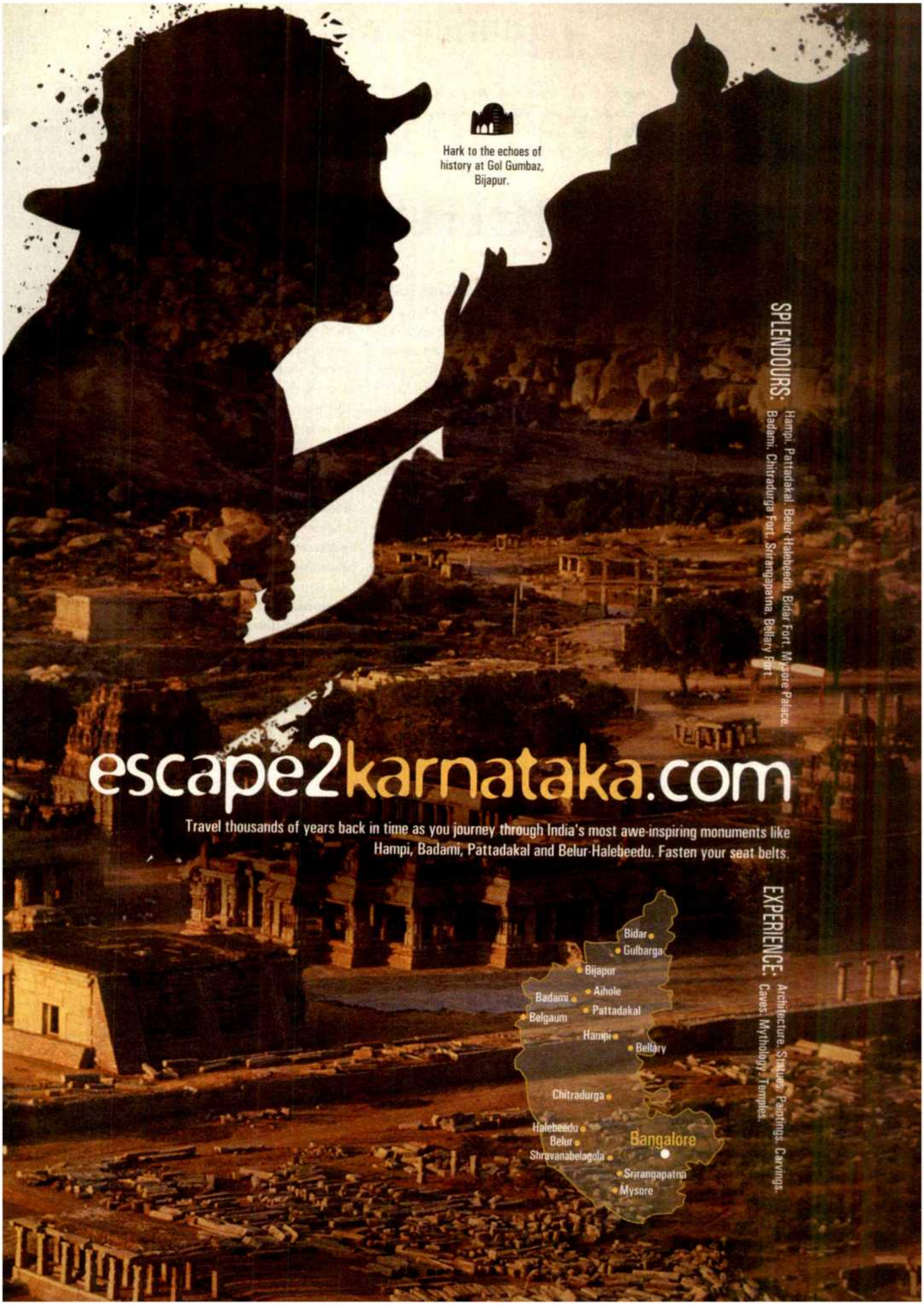
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Sharing Benefits

by Manashwi

Flex can address needs of both employers and employees

AS BUSINESSES COME UNDER RECESSIONARY PRESsures, they are shedding jobs, leading to an unprecedented surge in global unemployment. The number of internet searches on the word 'unemployment' more than tripled from December 2007 to December 2008, according to market research firm comScore.

Within companies, "HR management (has) become a target of discretionary spending cuts," says David Bartlett, economic advisor at London-based accounting consultancy RSM International. "And companies risk losing their long-term competitiveness since factors (such as globalisation and demographics) underpinning the war for talent remain intact even now."

But companies don't have to shed jobs to cut costs if they can rely on the concept of flexible benefits (Flex). The concept was introduced by multinational companies (MNCs) in emerging markets and is especially relevant in today's circumstances. "Currently, the options provided by companies around taxable allowances is perceived as Flex in India," says Kulin Patel, head, benefits at Watson Wyatt Worldwide, a global consulting firm. "True Flex addresses the varied needs of different employees."

The most suitable option is to share benefits such as insurance premium with the employee instead of withdrawing the benefit entirely. Based on employee profile, Flex also allows one to choose the mix of health insurance and other benefits that suit individual needs and life stage along with co-sharing costs. While the cost-shifting aspect of Flex can reduce employer expenditure, it also lets an employee choose what is more valuable to him.

For example, many homes with dual incomes have overlapping insurance coverage, an unnecessary cost borne by companies at a time when medical inflation is rising in double digits. Companies are giving the spouses an option that one of them takes the insurance cover, while the other takes the benefits in any other form. Though this may not reduce the company's overheads, it may make an employee happier. By providing other options — of similar costs — to the employee that "are designed according to the local fringe benefit taxes, you provide the employee with what he appreciates more," says Rosaline Cho Koo, Asia Pacific Health & Benefits Leader, Mercer Consulting.

Inarguably, Flex is neither known or widely practised yet. The Marsh/Mercer India Flexible Benefits Survey (conducted over Nov-Dec 2008 on 102 companies) says only 51 per cent of the respondents were aware of Flex (presumably MNCs). Owing to the current market scenario, or otherwise, 41 per cent felt they need to derive greater value from their existing benefits.

Such value addition eases talent retention challenges for a firm. Thirty per cent of those surveyed cited the same as a driving factor to implement Flex. Respondents from the BPO sector, however, showed a sharp contrast. Owing to the inherent high attrition rates at BPOs, the administrative complexities outweigh advantages of Flex.

Though many HR managers *BW* spoke to are trying Flex in small measures — encashable monthly awards and vacation leaves — most still consider (non-optional) provision of mediclaim, transport reimbursement and food vouchers as manna.

So, does it make sense to transition into this new structure during such turbulent times? Forty-nine per cent of the respondents were willing to implement Flex within a year. Koo believes companies can break-even in a year if Flex is deployed on a co-share basis with employees, accounting for transition costs. Patel reasons that though a highly effective practice, the Indian labour market has not yet matured enough, "No one wants to be first."

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MAJOR HURDLES

The Marsh/Mercer survey shows that BPO companies face most difficulties in implementing Flex due to administrative complexities

Key concern/challenge in implementing Flex	Tech. & Comm.	Manufac-turing	Pharma. & Healthcare	Financial services	BPO
Plan and administration complexities	15	26	23	15	67
Cost	11	0	8	43	0
Employees' ability to understand Flex	15	21	15	14	17
Lack of market information	7	11	0	14	0
Not tax-effective for employer or employees	4	11	0	0	0
Obtain buy-in from key stakeholders	4	0	0	14	0
No response	44	31	54	-	16

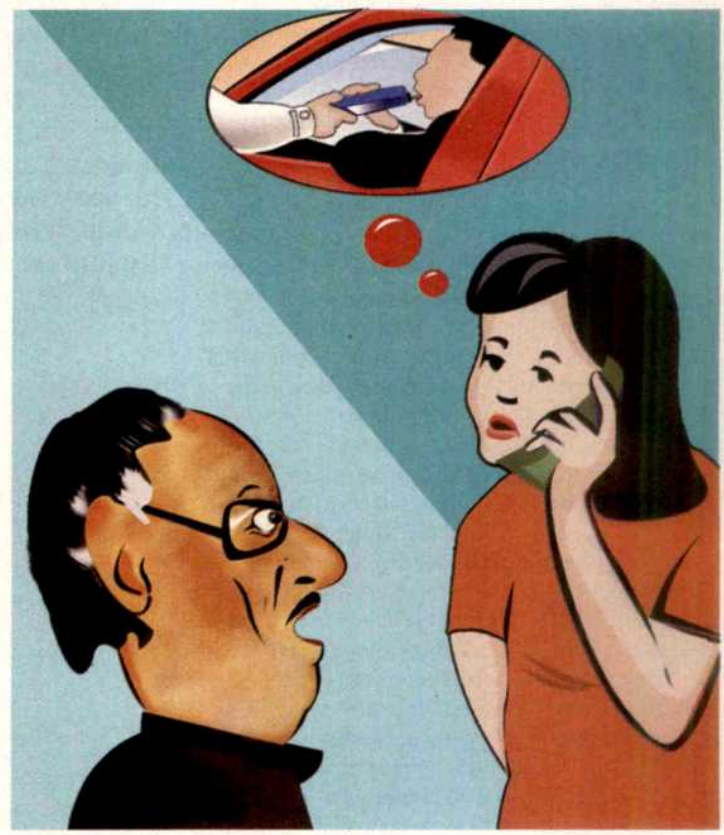
Figures are wieghtages given to key challenges in implementing Flex, in per cent

Source: Marsh/Mercer India

Where Have All The Shepherds Gone?

"Youth is the time of rising energy, hence expressive; what is expressive cannot be receptive at the same time."
— Hazrat Inayat Khan (adapted)

by meera seth



ILLUSTRATIONS: SATKAR J. YONZON

KARAN RAO CONTINUED TO STARE AT HIS COMPUTER screen and not at Probhot Sen who stood there holding a contract for his signature. An old hand at Brissit India, Sen was in his late 40s; "Sir is off colour, it appears," Sen said lightly. Karan signed the contract with a smile, and said, "You should be a sleuth, Probhot-da! Yes, I am a bit annoyed. I was walking into the office and heard one of the younger lady managers outside yell at Willy (cashier), 'It's your **** job to make sure we have change!' Willy is 60, it just rankled that she would use expletives for him! I have written her a mail telling her why she needs to be polite... but not sure if I should send it."

Sen smiled sadly, "Is it your mission in life to correct impolite people? Then do it. Did that happen to you? Then correct her. If not, *Jaane do* (let it go)."

Karan looked up, "Why do you say it is not my duty? I feel that it is. Because the older people do not take time to correct the young, we have a young community that is going off the handle." Sen shook his head: "Maybe, but this is not that occasion, I feel. In principle, what you say is right; but sir, correct by example only. Nowadays, everyone is like a *phooljhadi*. They flare up at the drop of a hat. In the workplace, people will tell you to mind your own business!"

Karan agreed, "Her friends say she is a good person except for her anger: 'she is like that; she cannot deal with mediocrity', they say." Probhot-da found that strange. "But then anger is mediocre, no?" he said to no one in particular.

Deeply affected, Probhot-da left Karan's room, and absentmindedly collided into an open drawer of Mamta Dhir's filing cabinet. Mamta was a senior finance executive, and was looking for a piece of paper for her boss. She was telling a colleague, "Did you hear what happened to Puneet? Terrible. While B-schools have done enormous good, the one major setback has been the easy availability of 'managers', who are too young join jobs not to get their hands dirty and learn, but to command others to do it. They are eloquent and the B-school degrees certainly give them a lot of confidence. But the problem is we do not demand work experience. We should insist. These are very often kids who join an MBA programme straight after school — no gap year working or exploring, no involvement in household work, doting protective parents, no EQ, or the maturity to handle others leave alone themselves! What can you expect when they have been told they are the cream of talent and will drive future business?"

Probhot-da was alarmed. *Now what had Puneet done?* But Mamta was saying, "Senior management (SM) hires them thinking they have hired thinking minds and know their aspirations are sky high and rush to woo them. Once hired, they treat them with kid gloves and often rush to appease them and buy their loyalty

by offering them hefty incentives prematurely, thus lowering the bar for talent.

"Here, Taran Valia, all of 27, he covers his mistakes in a lot of jazz, believes he must confuse if he cannot convince. He just asked me for promotion since he has met his KRAs (key result areas). Now, how do I tell him that his KRAs are the basic threshold for performance? As a result, these young managers (YMs) window dress everything. Today is the era of visuals, so PPTs, xls, *falana-dimkana*... they are dressing up surveys, research, ideas... What has happened to investment banking? All a product of visual and verbal dressing up and no content!"

Probhot-da was confused. She had said something about Puneet. But she was angry with Taran. Probhot-da walked on quietly. He never understood all this business talk anyway. But Maya Tripathi, head of Management Reporting, who taught at a business college in the evenings, seemed to have understood. "I agree. The meltdown and the Satyam scam has created some ripples among YMs. With fewer companies coming to campus for placements, YMs are anxious. They are willing to look at ethics differently. But who is to be blamed? How is it that they have come to acquire these values? There are many answers, and most are embarrassing!"

When Probhot-da returned to his cubicle, he heard raised voices coming from Meenaxi's room. People around him stood up to listen to the voices. *Oh! This was about Puneet again.* Meenaxi was head of Media, and had been getting ready for a major presentation to Zee TV at 12 noon. Apparently, Puneet, her assistant on whom a lot depended, had texted her: "Sry Mxi, can't make it; in police lock up, pls manage." "Unjustified arrogance!" Meenaxi was saying on the phone to HR. "It is no longer a matter of shame if you are arrested by the cops, don't you see? He was driving with three pegs inside! All this, thanks to a highly inflated view of self! Of course, it is that. You forget that these youngsters live in an environment that supports a compromised morality and ethics! In fact, what ethics?"

Meenaxi came out of the room to brief Jatin, a management trainee, so that the meeting could happen at 12. Everyone was sympathetic and tense; cops and the law had trickled inside Brissit India. The very idea made stomachs churn. Kailash Kar, a manager, tried to calm her with, "They are confident, but." Meenaxi said, "Rubbish! An experienced SM knows that the bravado hides ignorance. I find this a big problem when seniors start to get shaky in the presence of these young turks!"

Kailash now changed his tune. "Today, there is no premium being placed on hard work by media. Who are their ideals? Typically those with great packaging and almost no content. The other day I was watching a dance reality show... what abusive language they use on air! One of the judges was using dressed up four-letter words. *Baap re*! Incredible India, *hanh*! What do you expect then?"

"Today you have moved up people too fast at a very young age. Besides, many seniors haven't learnt to deal with this... the generation gap shows up and the easy way out is to debunk the juniors."

Probhot-da was sad. He could not understand why Kailashji was talking about a judge on television. This was about Puneet, no? Everyone was talking about Puneet. He went to Madhukar Dayal, vice-president, Communications, to hand over the contract signed by Karan Rao. He had to wait as Madhukar was talking to Anirudh Chari feverishly about Puneet. "Today, it is more about what the organisation can do for them rather than what they can do for it. They don't come lean and hungry any more. They want power, designations and roles. Even organisation behaviour is aiding this. One, there is a continuous pressure to move people up fast, 'we need talent, we need young minds'. Then there is a constant fear of losing people — 'retain him somehow!'; *Arre* what 'retain'? Senior management jobs are not only about talent and skills but of maturity too. And today's world is losing sight of that. Experience matters, yes it does. Today you have moved up people so fast at so young an age, that they do not know how to manage EQs of subordinates and are not able to take a long term view of situations. Besides, many seniors haven't learnt to deal with this... the generation gap shows up and the easy way out is to debunk the juniors and sniggering at their speed and lack of maturity. Doesn't help, does it? And yes, there are seniors who are equally immature and not trained to manage the speedy and ambitious junior. So we are quite badly messed up, I say, quite badly!"

Anirudh Chari, the head of IT, was listening to Madhukar, leaning on his glass wall. He said, "Age and experience have lost much of their sheen, Madhukar, because in new industries those who have adapted to the changing trends have prospered quickly. But then all experienced people have not shown this agility to adapt as easily or at all. That is why youth has gained a premium. Add to that an explosion in opportunities. This has led people to believe that success is about grabbing and capitalising on the right opportunity at the right time and less about working hard and being consistent. IT industry is seen like that. There is a steady erosion in values in all spheres of society and you cannot but see it being reflected in business too!"

Madhukar rocked his chair as he added, "I am thinking of me at 25-28... things were so different!" Anirudh shook his head, "Were they? It is easy to think values were high or better, but in an environment where opportunities were few and growth very slow, I am not sure people

behaved well and worked hard because they believed in that route or because that was the only way possible. And I don't think it is about ethics or values either. If you list the top 20 scams in last 20 years, my guess is all the scamsters would be people who are 40+ in age; so I doubt if you can club the young with lack of values.

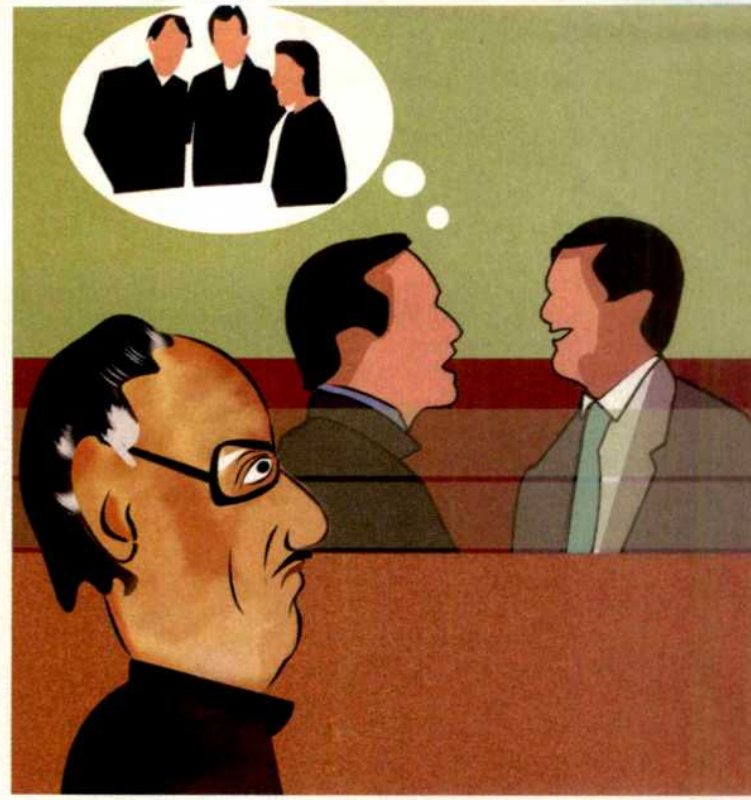
"In my opinion, the bug lies with the western model of giving more importance to profit here and now than to building structures that create lasting value. As a consequence, what is being heard is 'it is important to keep growing in size and profit.' A compulsion for high share price and high market share essentially means 'how I am perceived is more important than what I actually am', and that is where the gap starts getting created." Everyone crowded around Anirudh as he spoke, for he was seen as the magic man who made things happen at Brissit, and made them happen in record time. "I think the failure lies in our intelligentsia and business community not creating home grown models of growth which are rooted in reality and human values, but instead aping US/Europe/IMF.

"Look, the young will only follow what they see, correct? When we were young there were no high profile industry events in India until liberalisation happened and made it show time. And our role models were growth engineers like Ashok Soota, Muktesh Pant, Jay Raja, Naina Lal, who put India on the map of relevance with their ingenuity. We saw them and wanted to be like them. These transition engineers created gold from nothing. After that I think, we lost stamina and wanted gold without the effort. And that is what we are seeing in the young today."

Mamta, who had come in with some documents, said, "Truth is Chari, those people you mention allowed their seniors to correct them, and learnt from them. Today's young are not open to correction!" Anirudh examined his nails and said, "Fundamentally, human beings are not open to criticism and feedback, Mamta. They take it and change themselves only if it comes from a person they admire or if they had no choice. The earlier generation did not have a choice, and so they listened to their superiors. In hindsight, they might be thankful for all the mentoring, but I am not sure if that is how they felt at that moment. Today's YM has choices, so he will be open to correction only if it comes from the right role models — and there aren't too many of those.

"At Wipro, where I trained, a lot of my ex-bosses and their superiors (most of whom are today CEOs of companies) were unconsciously role models for me and many of my peers. So you have to choose your role model."

Probhot-da felt better. He turned to pick up his tea, mulling over Chari's words, when he heard Kuldeep Singh, "What we do not realise is that YM identifies with the fancy designations and assumes he is senior and mature, but his behaviour is more like misbehaviour." Manoj Mallay, head of CSR, said, "This must be true for MNCs like us where we reward with huge designations. In the old days, blue chip companies became blue chip because of blue chip values and approaches."



"I think the failure lies in our intelligentsia and business community not creating home-grown models of growth which are rooted in reality and human values, but instead aping US/-Europe/IMF."

Jaggi Sreeniwas clucked with annoyance; "Where is the 'real SM' these days guru? Nowadays, promotions are happening so fast that a person at 33-35 is in top management." Manoj shook his head, "*Phir bhi*, once they assume leadership roles, they must correct the YMs. Instead we see that SM is chasing monetary and career gains with a vengeance. As a result, we have a SM who is too myopic to desire correction of YM because they are physically and intellectually exhausted. What is really lacking is that sense of organisation loyalty... a dedication; this may be one of the most important reasons for the callous attitude of the middle-level and senior managers. So blame them, not the YMs."

Just then Kevin Moraes, the new business head, came in on a quick trot; he needed some stamp papers, but Meenaxi stopped him with Puneet's story. Kevin was intrigued. He said, "There is something more going on here, Meenaxi. The first and foremost reason is time. Consider the days when we started our careers. Jobs were available but not overflowing. We were careful and respectful. But today, jobs and opportunities for entrepreneurship are available in

plenty and, therefore, job hopping is common. Why should YMs, unlike you/me yesterday, take the pain as we took? However, history repeats itself the first time as a tragedy, and the second as a farce — Markets have tanked, job opportunities reduced, and fear of losing jobs eating away at the YMs. The 'arrogance of youth' will evaporate soon if such a situation continues. Therefore, YMs today (in literal sense) will try to use correction as a learning tool, yes Probhot-da?"

Probhot-da was happiest. He liked Kevin. Optimistic. Yes. But now Kevin was saying, "Over a period of time, the situation altered into an employees' market from an employer's standpoint. Therefore, with possibilities of not getting the right candidate for specified assignments, employers started retention policies and schemes. Simultaneously, the YMs started getting the most royal treatment from their organisations. The seniors were criticised for antagonising the YMs, the brightest stars of tomorrow. Criticised and ridiculed, these seniors got back into their shells and started cursing their fortunes for not being able to sprint like the YMs. Frustration is not an ideal emotion to deal with when you want to be a mentor."

Probhot-da was alarmed. What was this! Meenaxi looked up from her work. She was stunned too. "That observation is a surprise, Kevin. Why would an SM get rapped on the knuckles for being tough on the YM? And you are saying that in the face of all the berating, the SM loses the desire to mentor? Why so? Or does he feels compared?" Kevin smiled, "Change," he said simply. "More often it is the SM who fails to adapt to change or shows reluctance to embrace change. Under such circumstances, it has often been observed that a good bunch of seniors, as they resist change, initiate activities either to cut out the YM, or somehow to dampen the spirit of these young change agents — creating or inspiring situations where they start getting ridiculed or criticised.

"The world today is not only getting younger, but also taking the corporate world along and motivating it to bring in a younger look. Therefore, not only you find younger Dream Merchants all over but also the corporate mantra has changed to 'youth'. It is obvious that such conversions have pushed the older lot or the seniors, who show resistance to change, to some destined corners of the corporate sector."

Puneet was being discussed in various pockets on the 7th floor of Brissit India. And that was when Mohan, the HR head, came to discuss the way forward on Puneet's case. He saw the people congregating and said, "I think many senior management members are caught up in too many issues and, hence, not getting the time to focus. The business dynamics have grown huge. Also, the definition of success has undergone lot of change, that it is rather complex on motives. We must know Puneet's definition too."

"The seniors were criticised for antagonising the YMs, the brightest stars of tomorrow. Criticised and ridiculed, these seniors got back into their shells and started cursing their fortunes."

Pranav Raj, the trainer at Brissit, was a little surprised over Puneet's 'accident' with life. Everyone thumped him on the back for they knew he worked very closely with the YMs. "I would like to call it a shift in values towards being more self-centric. I agree with Mohan, the changing definition of success, changing structure of families, a wider set of values available to choose from since globalisation, etc, — these are the influencers. Correction is a weeding process today, for health later. But the young do feel 'why should I wait for long term and get diluted returns when I can get immediate benefits, just for myself?' The risk-return payoff is far higher, within the scope of the values that he cherishes!"

Probhot-da nodded happily, and put his cup on the collections tray at the end of the hall. Snigdha, the HR consultant, who was doing the 'Prudence During Recession' workshop, was telling Pia her story at the coffee machine. Probhot-da stopped. He liked stories and this lady was narrating it with a lot of drama. Probhot-da wanted drama. That Puneet had caused a fat label to be put on young managers.

"*Yaar, meri zindagi mein to sab aise hi hein...*" began Snigdha, "My cook, my hubby, my boss. Nobody likes correction. The other day, I very lightly scolded the 21-year-old cook; she gave it back to me. I tried to correct her and she raised her voice. I left the kitchen. The next day, I went to her and in a false calm voice did an HR act on her. And told her that her behaviour the previous day was unacceptable. She tried to resist, and I said, 'Yesterday, you spoke and I listened, today you keep quiet and listen to me'. I also gathered enough courage to tell her that she needs to conduct herself properly in future, this kind of behaviour will not be accepted."

"And then?" asked Pia, her eyes growing big.

"Then I came to my room and wiped the sweat off my face. *Yaar, kahin baai bhag jayegi to kitni mushkil hogi*!"

Probhot-da smiled. Finally, there was humour after all... any kind of ending was a good ending, he mused.

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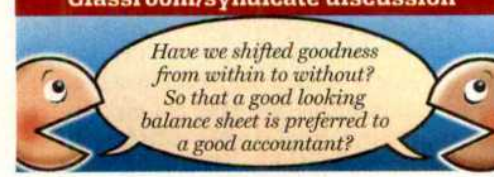
Classroom/syndicate discussion



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The Right Approach

What helped them excel on campus may not be enough to help them succeed in organisations

'WHAT GOT YOU HERE WON'T GET YOU THERE', IS the title of Marshall Goldsmith's book that talks about how successful leaders can take their success to the next level. How apt a thought for young managers (YMs) in this situation!

They have been successful in getting the opportunities they have because of their self-belief, because they have learnt to flaunt their strengths and aggressively push their own brand. Their professional lives today prove the age old Pavlovian experiments on 'operant conditioning' — one's actions and behaviour get you success, you will learn to keep repeating them in search for more. They have grown up hearing, 'You are so capable and you will win in life' from family, teachers and others around them. Ironically, these are the same beliefs that will impact their ability to learn and work with others, which are essential for their success in the future. What most YMs tend not to realise is: what helped them do well on campus may be necessary, but not sufficient to help them succeed in the hugely different context of the organisations.

The face of India has changed with dramatic economic growth. We are brimming with confidence and pride in ourselves as Indians. The inevitable shortage of skilled staff has forced companies to vie with each other for recruiting what is available, thus fuelling the confidence in people. What they may not be cognizant of is that in the interest of keeping the growth momentum, companies are sometimes compromising on standards of professional excellence in the hope that 'gaps' can be made up by appropriate training and development actions. The fallout is significant collateral damage, and in this context the damage is to our humility as individuals and probably, as a nation.

The transition, from a largely individual contributor at school level and at the start of one's career, to delivering in teams, is a difficult one. Every organisation, by one name or another, aspires for its people to build competence in interpersonal effectiveness and the ability to deliver the collective goal of their teams or organisation. Much has been written about emotional intelligence and how important it is for this kind of success at work. Empathy, one of the bedrocks of emotional intelligence, is the ability to make a connection, to attune to a wide range of emotional signals, to listen well and understand others' perspectives. None of this is actively covered in our education.

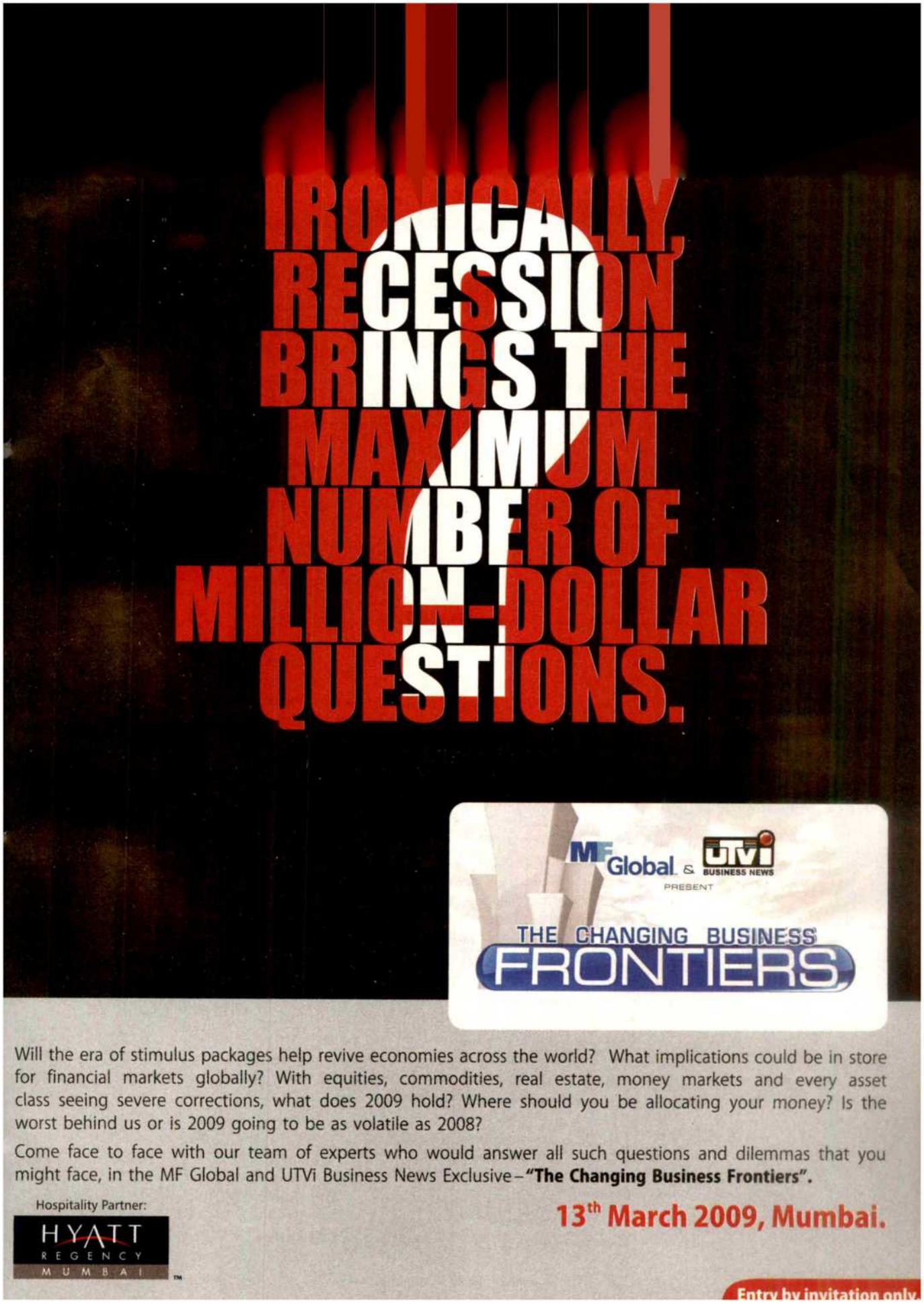
The first challenge for YMs is to realise the need to connect with others. "I am overloaded. I have no time to waste. Why should I make small talk with people?" — are common refrains in organisations. The mind is always in a hurry and focused on achieving short-term objectives. So in the case, the young lady manager probably wasted no time or even thought about asking Willy, 'why there was no change' before proceeding to express her anger. This particular episode may not impact the lady's performance, but when repeated in other circumstances, will begin to affect her contribution.

The second is to develop skills to ask questions, listen with respect, to think before speaking and to express gratitude. Easier said than done in this busy world and in a society that is losing its focus on respect for age, experience and knowledge. These are simple skills that come from a genuine concern for others and putting them to practice. For a generation that is so focused on success, equally important is the need for the organisation to strongly signal that these skills are valued. Several progressive organisations today are taking to the 360 degree feedback as an important source in this regard. Asking a diverse set of colleagues for anonymous feedback on how individuals are perceived on aspects such as working with others, learning from mistakes and respect for others is a great way of capturing what is mostly unsaid to people. If Puneet were to see a report that has a few people telling him that he needs to stop being irresponsible and arrogant, it is bound to make him pause and reflect. His conversation with Meenaxi then is likely to be more open than if it is her view versus his.

The question also is, why did Willy and others quietly accept the impoliteness and why does Karan Rao have to think twice about sending the reprimand mail? What is happening in the case is fairly representative of what happens in organisations — there are too many of these conversations happening about people in their absence rather than with them. Imagine what a powerful message it would be for all if Willy were to do a 'then and there' display of the right behaviour — feedback for the individual without losing his cool. The world is changing for everyone, YM or SM and both need to adapt and learn to be more effective. This is certainly one place where the senior generation should copy the YM style of on-the-spot, here-and-now feedback and say exactly what they feel.

After all, what got you here won't get you there.

Archana Bhaskar is an HR professional who has worked for years in India and Europe. Currently she is the HR head for Shell companies in India



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To Correct Or Not?

Senior managers should nourish good virtues in young managers

EVERY EFFECT HAS A CAUSE. THE BEHAVIOUR, attitude and values of the young managers (YMs) in corporate India today, as described in the case is an effect, with many causes. Irreverence, arrogance, impatience, low emotional intelligence, opportunism, selfishness and an 'I, Me, Myself' attitude are manifestation of seeds that have been sown in the past. Similarly, helplessness, insecurity, inability to change and a policy of control by appeasement and manipulation practiced by senior managers are also effects with many causes. It seems a lot of seeds that have unwholesome outcomes are playing out their character in business organisations today.

According to the Buddhist Mahayana thought, human consciousness has eight levels, of which, the ground or the eighth is store consciousness called *alayavijnana*. The primary function at this level is to attract, and store, seeds of every experience a person undergoes. Like a mind field the totality (*sarvabjiika*) of both wholesome and unwholesome seeds sown by parents, schooling, ancestors, society, environment and above all ourselves are contained here. Seeds are never lost, rather maintained (*adana*) with the 'habit energy' of each intact and waiting to play out as manifestations in a suitable environment. In the context of the case, the environment is family, society, organisation, senior managers, media, peer, globalisation, etc.

Our YMs are manifesting seeds that are already present in their conscious mind. Arrogance, impatience, self-centeredness, disregard for elders are manifestations of seeds, which were sown in the past. Parents can be seen as the first cause who sow seeds in the store consciousness of YMs. For example, the obsessive concern with high marks the moment the child enters school sows seed of 'achievement is most important'. Pampering children with material luxuries either because the parent was deprived and does not want the child to go through the same fate, or because they are compensating for time they cannot give, sows the seed of 'materialism and instant gratification'. Similarly, in families, where elders must earn support of adult offspring by demonstrating their useful now, and not because they are already deserving, sows seeds of 'deals', 'payoffs' and 'irreverence towards elders who do not serve any vested purpose'.

Schools also by their 'marks only' philosophy segregate children into achievers and non-achievers. In the past, there were regular moral science classes in schools, and good conduct awards and badges recognised the value of good behaviour. Even business schools dance to the tune of corporates who have the capacity to pay the most. Pedagogy, course curriculum, time tables and student activities are geared to attract the highest paying employers. Success is equated with materialism. We have just stopped sowing seeds of good behaviour, nationalism, character and evolution.

Parents, teachers and recruiters (bosses) are responsible for the behaviour of YMs. It is no use passing the blame to media, technology, globalisation, and western paradigm, for they too are manifestations of seeds that exist in the collective consciousness of groups, societies, cultures and nations. Just like the evolutionary creativity of all bacteria is a result of freely passing hereditary traits, even in human beings, seeds pass freely from individual to collectives and vice versa. Vietnamese Buddhist Zen master Thich Nhat Hanh refers to this as interbeing and interpregnation of seeds. Thus, all change is a manifestation of seeds, which were already present and are shared by individuals and collectives.

So, how will the correction happen? Definitely not by victim blaming, as both young and senior managers are manifesting unwholesome seeds, and it is difficult to apportion blame equitably. Similarly, punishments as a strategy is counter-productive as it focuses intensely on negative actions. According to the Zen master, we need gardeners (individuals) and *sangha* (collectives). The store consciousness is like a garden or a plot with seeds, but it cannot cultivate itself. A gardener plows hoe and selectively waters the plot to help right seeds germinate, grow and bloom. Senior managers can become gardeners who will make efforts to nourish only wholesome seeds in YMs and also in themselves. They must stop nourishing greed and selfishness by using 'control by appeasement and manipulation' tactic.

Secondly, *sanghas* can be created in all organisations. Sanghs are collectives within the organisation where employees engage in creative and philanthropic activities. Sangha activities should be delinked from appraisals, but involvement should be mandatory. The synergy that comes from doing things together for their own sake accelerates sprouting and storing of wholesome seeds. When the gardener stops work, and people return to their homes from *sangh* and organisations, the soil continues to do its work. Sooner than later, the garden will bring forth and offer the fruits of awakening.

Mala Sinha teaches Business Ethics at Faculty of Management Studies, University of Delhi

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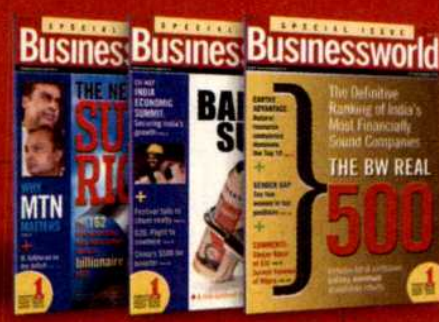

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TRENDS

Lavish Treats

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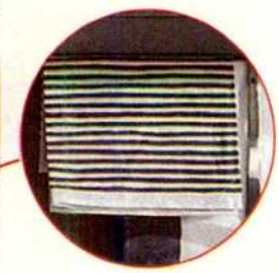
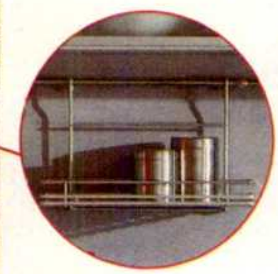
BUILT-IN GADGETS

Next time you are hosting a movie night at home, you can cook, bake, heat at the same time in the luxury kitchen. The refrigerator-freezer and the washer-dryer units are also included in this modular layout. The price for such splendour is Rs 1 lakh per appliance



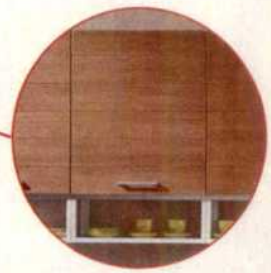


HANG-ONS

The innovative and contemporary modular kitchens have arranged accessories such as paper towel racks and spice racks in ways that are easy to reach. Costing roughly Rs 15,000 each, they are hung on steel rods and can be slid across the walls of the kitchen, as per convenience.

CHIMNEY

An essential part of modern-day open kitchens, a chimney such as this one can be bought for about Rs 70,000 from kitchen specialists such as Magppie and Kohler



LIFT UPS

Overhead counters come with soft-close lifts that open upwards rather than side-ways, and even come with remote sensors

DRAWERS AND CABINETS

Shutter options, such as membrane-foiled, veneered and lacquered glass finish, are available for that swanky look

FAUCETS

Companies such as Moen and Pyramis specialise only in faucets and make models that cost as much as Rs 22,000

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SPAS

Soothing Experience

BLISSFUL BUSINESS: Six Senses Resort plans to open two spas in India

WHAT HAVE MOST listings of world's best spas have in common in recent years? They have invariably featured more than one high-end Indian spa, of which there are over a hundred now. Super luxury destination spas, hotel/resort spas and day spas — we have them all. The 99,000 sq. ft ITC Mughal's Kaya Kalp in Agra, the country's most spacious spa, noted for its royal *hamaam*, has been winning awards in less than a year of operation. After the Ananda in the Himalayas and their hotel in Bangalore, Ista Hotel now has a six-spa in the vicinity of Hyderabad's Golconda Fort. Karnataka-based Serena Spas, which already has highly rated facilities in Delhi, Kochi and Devigarh, has also opened the Mediterranean-inspired joint venture Decleor Spa in Bangalore. Meanwhile, UK-based founder and CEO Sonu Shivdasani told *BW* that the Six Senses Resorts and Spas are set to come up in the Nilgiris and the Andamans in the next two years. Since everything from the Australian Moor Bath to the *Pehelwaan Maalish* is already available, it will be interesting to see how Six Senses betters the best.

Queenly Cruise: The largest and the most expensive passenger liner *Queen Mary*, at the Syndey Harbour. It is on a 90-day world tour.

AP

AUTOMOBILE

The big, small drive

AP

DRIVING DELIGHT: The dazzling 200EX is being called the Budget Rolls

SINCE THERE IS NO CAR like it, company officials told *BW*, the Rolls Royce can only compete with private jets, luxury yachts and villas in the south of France. Even so, when a slowdown drives in, even the Rolls shrinks a little. At the ongoing Geneva Auto Show, the glorious Rolls has debuted as the 200EX, the smaller, less expensive 'baby Rolls' or, that quixotic oxymoron, the Budget Rolls. Officials quickly rubbish any suggestion that this is a strategy to beat the downturn — they had, afterall, announced the 200EX's development in 2007. Featuring a slighter profile than that of the gigantic Phantom, even at 40 cm less, this baby will still be a whopping 5.4 metres long and nearly 2 metres wide, and powered by the same V12 engine that makes the Phantom so enviable. "We expect the more informal, agile design to attract people who appreciate its fusion of refinement, new technology and contemporary style," says Tom Purves, Rolls Royce's CEO. Faced with requests for delayed deliveries and tagged upwards of £ 250,000 (Rs 1.9 crore), the Indian roads have not been kind to the most prestigious car in the world. Last October, Rolls' global sales chief Graeme Grieve was quoted as saying they expected to sell more than 18 cars in India in 2008, but the year ended with only 14 sold. The Rs 4-crore Phantom coupe, launched in the US and UK in August 2008 and expected here in November, arrived only last month. This year, thus far, three cars have been sold and three booked. Indeed, total sales in the four years since the Rolls returned to India, stand at a quiet 41.

Pierre Mario Fitter

GADGETS

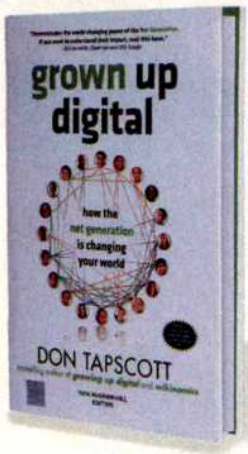
Hear, Hear

THE HIGH-PROFILE LAUNCH OF MOTOROLA'S handsomely packaged Aura — the box is a polished wood and the stainless steel housing takes two weeks to manually sculpt and etch — bandied as the Rs 1.1 lakh phone, brings the spotlight back on 'the most expensive' class of mobile must-haves. Aura has the world's first circular display, already being appreciated for its sharp and vibrant colours. That said, the Aura's 2-megapixel fixed focus camera and absence of 3G functionality make it as feature-packed (or not) as other super luxury phones, including Bang and Olufsen's Serene (Rs 75,000), which was admired for its trapezoidal clamshell design and motor-assisted flip-open feature, but never forgiven for the positioning of a camera that required the subject to be shot sideways. There's still nothing to beat Nokia design guru Franco Nuovo's Vertu (Rs 2.4-17.2 lakh) — its Signature line has more than 400 mechanical parts. Apart from its now-famous dedicated concierge service, the Vertu's hand-stitched leather holster, jewelled ruby keys and customised liquid alloy handset make it a tough act to follow. Meanwhile, Tag Heuer is expected to enter the luxury phones market this April. The masculine, angular Merediist, already being compared to the Vertu, will have a crocodile-skin encasing and features like seven-hour talktime, quad-band GSM connectivity and Bluetooth stereo A2DP. Its expected MRP? $5,300-6,100 (Rs 2.6-3 lakh).

TRIBHUWAN SHARMA

PHOTOGRAPHS: BLOOMBERG

PREMIUM CHAT: (From top) Vertu's Signature series diamond collection; Bang and Olufsen's Serene; Tag Heuer's to-be-launched luxury phone; and the Motorola Aura



The E-tiquettes Of Netizens

by pierre mario fitter

GROWN UP DIGITAL HOW THE NET GENERATION IS CHANGING YOUR WORLD; BY DON TAPSCOTT; PUBLISHER: TATA MCGRAW-HILL; PAGES: 318; PRICE: Rs 595

A FRIEND OF MINE RECENTLY APPLIED FOR A JOB. Before she was called for an interview, the company asked her to prepare a slide show on some data they sent her. Although she had an understanding of the numbers, she was in a dilemma about how best to present it. So, she emailed it to five friends who replied instantly with ideas.

If you are above 40, chances are that you would think my friend cheated. After all, she was the one applying for the job, and it was her talent that the company wanted to tap into. Moreover, she certainly would not share her salary with the friends who helped her. But if you, like her, graduated from college in the past few years, her actions would probably seem the most normal thing in the world. After all, if she was stuck at work, would she not reach out to colleagues for advice? According to Canadian business consultant and author Donald Tapscott, such networking and collaboration come naturally to 'Net-Generation' because most of their adult life has been spent online — connecting, researching and collaborating with friends.

In his well-researched book GROWN UP DIGITAL, Tapscott outlines how and why the current tech-savvy generation is changing the way we work, shop, play and even entertain ourselves. Today, with a click of a mouse, Net-Geners shop for gadgets, listen to music, learn a language and connect with long-lost school friends. And they expect their schools and workplaces to be ready to accommodate such lifestyles. Be prepared for change — the Net-Geners outnumber every other demographic.

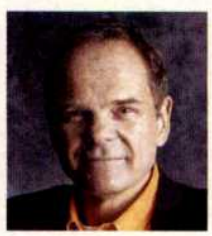
Tapscott says he was deeply intrigued by questions such as how do Net-Geners study? What do they expect from employers? What drives them to choose certain brands over others? To find out, he conducted a global survey of thousands of Net-Geners, asking them all sorts of questions. Most of the results are proprietary — meant for companies that subscribed to his project. But equally invaluable information is now available in this book.

The author delivers an analysis of the numbers from his survey. Are Net-Geners really "stupider" than their parents as they spend so much time on the computer? Not true, he argues. Instead, he says they possess different abilities than their parents. They are compulsive multitaskers and natural-born networkers. After all, no baby boomer could ever imagine watching television, chatting on the Net, uploading a picture on a social-networking site and doing their homework, all while munching on a pizza.

In the second half of the book, Tapscott looks at how Net-Geners are already changing the way their workplaces and schools function. At work, they prefer teamwork rather than going it alone. At school, preparing a presentation to which everyone contributes their talent is far more appealing than solving geometry puzzles alone. Net-Geners, in other words, want to collaborate rather than be mere consumers or recipients of pre-digested information.

Tapscott argues that the multi-tasking habits of this generation have led to the development of a set of faculties, very different from their parents' generation, that enable filtering out all unnecessary information — especially anything perceived to be unnecessary. And, he writes, these new talents are changing the shape of their brains.

The book also tackles another hot topic: social-networking sites. To Tapscott, these are great tools that help people collaborate and learn together. He says organisations that block access to Facebook or Myspace do so at the



DONALD TAPSCOTT is a consultant and speaker on business strategy and organisational transformation. He has authored and co-authored seven books on the application of technology in business. In 1994, Tapscott co-founded Digital 4Sight, a company that researches and designs new business models for Global 2000 organisations. He regularly contributes articles to newspapers and magazines.

BROWSING
Vijay Srinivasan
MD (India subcontinent region), Invensys Process System

I am currently reading In Spite Of The Gods by EDWARD LUCE and Blink by MALCOLM GLADWELL. Luce has wonderfully captured the transformation and rise of India in spite of all odds stacked against her. In *Blink*, Gladwell outlines how people succeed by trusting their snap judgements more than cautious analysis. I prefer unusual books that open our minds to new ways of thinking and approaching challenges.

risk of alienating and eventually losing their younger talent. After all, a 20-minute break online is much healthier than cigarette breaks.

That said, the book does have its shortcomings. One, it is slightly academic. This is unfortunate because there isn't a single demographic group that would not benefit from the insights that Tapscott has penned. Also, while his case holds strong for countries with large net-connected populations, it ignores the fact that much of the world is separated by a strong digital divide. This is particularly prominent in Asia and Africa, where tens of millions of kids have access to high-speed internet connections, but they are greatly outnumbered by the hundreds of millions who do not.

Still, read this book. If you are a parent, it will help you connect with and understand what motivates your teenager. Employers will learn how to get the best from their employees, marketers will learn how to be more effective and universities will be able to create more enriching learning environments. This is easily one of the most important books to understanding the group that will drive the 21st century.

SELECTION 1

Anguish Of A Lesser God

BEYOND THE BLUES
A CRICKET SEASON LIKE NO OTHER; BY AAKASH CHOPRA; PUBLISHER: HARPERCOLLINS; PAGES: 222; PRICE: Rs 295

AAKASH CHOPRA, WHO? ONE MAY BE FORGIVEN FOR asking. It is easy to forget a stodgy batter whose only claim to fame is playing a supporting role in India's imposing show in Australia over five years ago. The Australian summer of 2003-04 seems an eternity away as international cricket is hurtling along like a train on rocket fuel. Kudos to HarperCollins for publishing an unsung, and even wronged, cricketer.

This book is more than a cricketer's diary of a season. Chopra's candid, even emotional, jottings provide an unprecedented peep into the mind of a player dropped from the much-feted Indian national team — his attempt to come to terms with his expulsion from cricket heaven and his renewed quest to get back among the gods of Indian cricket. Chopra's story is actually every 'dropped' cricketer's story in India.

What makes the book particularly poignant is the coincidence of Chopra scoring 1,339 runs in 15 games, including five centuries, in the 2007 season and yet getting brushed aside when it came to selection for the Indian team's tour of Australia at the end of the season. Instead, another 'dropped' batter, an out-of-form Virender Sehwag, got picked. A shattered Chopra managed to hold on to his motivation to play thanks to sympathy from Rahul Dravid and an explanation from the captain for the tour, Anil Kumble.

—Feroz Ahmed

SELECTION 2

Revisiting Tehelka

ONE OF THE MOST WIDELY PUBlicised scandal in the Indian political history, Tehelka is a subject that refuses to die down. Reams of newsprint and countless hours of airtime have already exposed how a bunch of journalists — posing as middlemen — could bribe their way into India's defence establishment. The narrative brilliantly illustrates the point that truth has many versions that do not always tally.

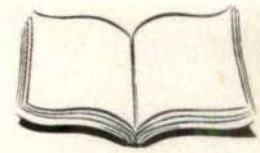
The plotline in PRISM ME A LIE TELL ME A TRUTH (Roli Books) is the characters' narration of the roles they played in the scandal and their back stories. Tarun Tejpal, a maverick journalist, teams up with protégé Aniruddha Bahal, to start a news portal dedicated to "kick-ass journalism". Soon, Shankar Sharma and Devina Mehra, owners of a stock-broking firm, are roped in as investors. Bahal is entrusted with the task of heading Operation West End. And soon, Matthew Samuel, another maverick from Karnataka, is brought on board. Eventually, it was Samuel who would pose as a middleman and film the entire episode. And on 13 March 2001, the Tehelka scandal broke.

Although the book runs into almost 600 pages, Trehan throws in pace, bits of pungent humour and sarcasm, which make this a page-turner. On the flipside, the book digresses into the psychological aspects of the scandal. Trehan mixes Gandhi and Greek mythology to deliberate on men's sexual behaviour, but ends up confusing the reader. Moreover, the interview transcripts are long-winded and become unmanageable beyond a point.

The book provides a blow-by-blow account of how brutally a government can misuse state machinery to harass the vulnerable. Overall, this is a gripping tome on the underbelly of politics in India.

—Aayush Soni

ALERT



SUNIL MANOHAR GAVASKAR
BY DEVENDRA PRABHUDESAI
RUPA
In typical celebrity-biography style, it is a big fat book, with a lot of photographs. Still, it can be rivetting for a fan of the 'Little Master' — the 5'4" batting maestro who loved to wear down fast bowlers with his immaculate technique and no-risk approach, and who set new records for runs and centuries in test matches. Despite its volume, it is mostly a racy read as the author takes one on a nostalgia trip of an era that saw Indian cricket grow from contented losers to swashbuckling contenders.

India's Little Slumps

IT IS DIFFICULT TO BELIEVE THAT THE GROWTH OF national income exceeded 8 per cent at this time last year. True; it fell below 8 per cent in the second quarter of 2008. But it was only slightly below that magic figure; that is why the devout optimists could delude themselves that there was a momentary slip and that India would resume its rightful ascent before too long.

SANJIT KUNDU

The best anti-deflationary policies at the present juncture would be devaluation, and investment incentives to increase industrial efficiency

For them, the latest figure of 5.3 per cent for the last quarter of 2008 has been a wake up call. Growth is now seen to be unequivocally and undeniably falling. The trumpeters of India's rosy destiny have fallen silent. The only man who could not contain himself was Suresh Tendulkar, the recently anointed chief of the Prime Minister's Economic Council. In his earlier, unofficial incarnation as professor in Delhi School of Economics, he was known to be sober and cautious. But like everyone in the government, he too has caught the patriotic fever. Tendulkar pins his faith on the huge amounts of uncovered expenditure the government has been announcing from time to time. A slump is commonly believed to be due to a fall in total expenditure; so in Tendulkar's thinking, more government expenditure must revive the economy. Surging waves of cash will soon start beating on the dancing bears of India; it is only a matter of months before they will be drowned, and rampaging bulls will make India run at 8 per cent and more.

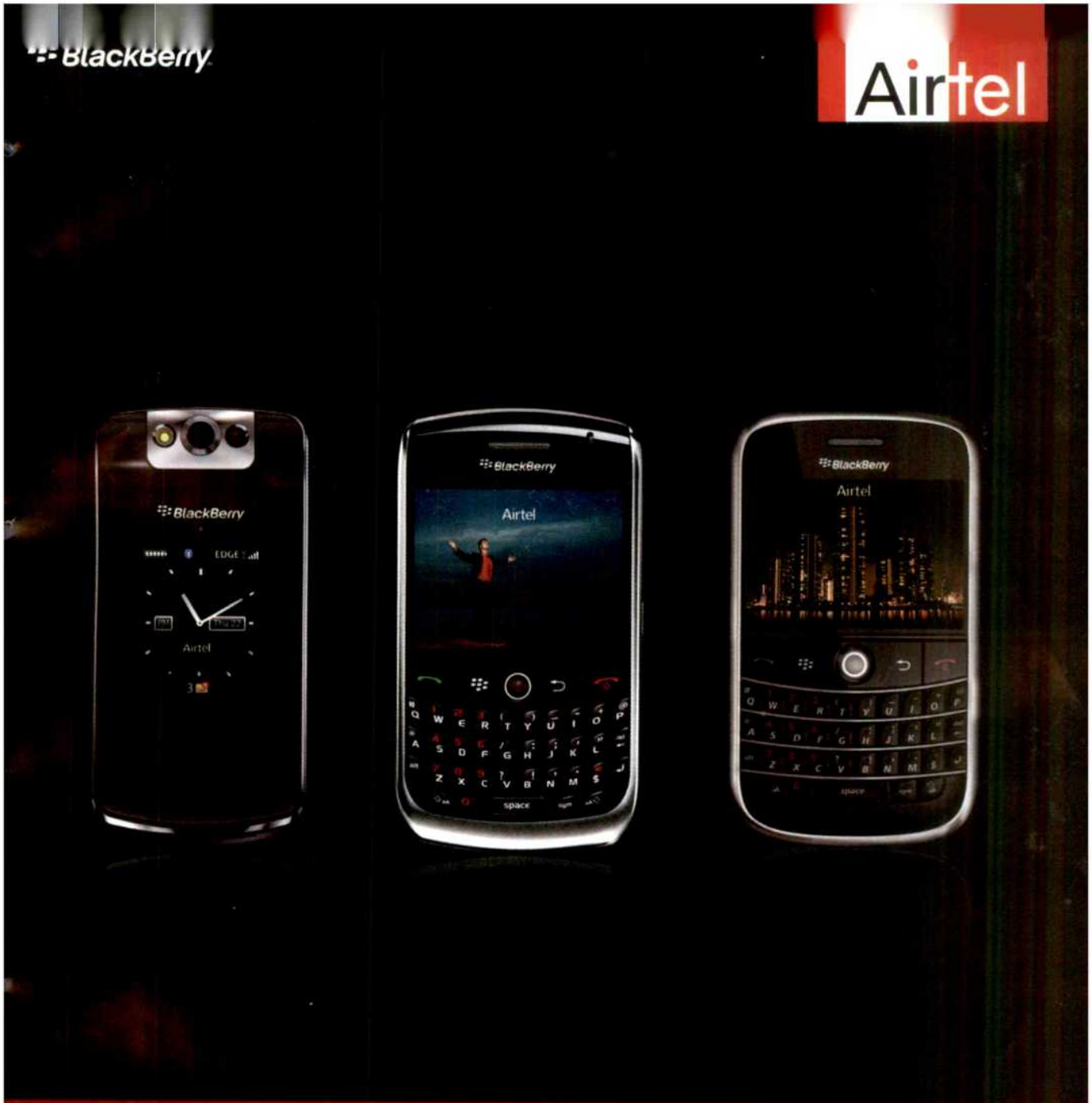
Those who want to hope should not look at reality. But those who are prepared to stare reality in the face can learn something from the latest GDP figures. What is most striking is the decline in agricultural growth, from 6.9 per cent to minus 2.2 per cent between the last quarters of 2007 and 2008 — a fall of 9.1 per cent. If all else had remained the same, that fall would by itself have brought down growth by 2.3 per cent, from 8.9 per cent to 6.6 per cent. And yet, this fall is a statistical artifice — it shows base effect. Because growth in the last quarter of 2007 was so high, the base was inflated, and growth from it would have been brought down. Agricultural growth over two years from the last quarter of 2006 comes to 4 per cent — an annual average of 2 per cent, which while not spectacular is still respectable. If agricultural production had grown at the normal 2.5 per cent, the overall growth rate would have been a per cent higher. It gives less reason to shed tears.

Hence, if the policymakers were not lost in their dreams and were to learn to read figures, they would discover more solid reasons for optimism. But then they would also have become aware of their achievement. Community, social and personal services grew by 17 per cent in the last quarter. These are just a camouflage for government services, and these are not measured by the good they do to the people, but by the money the government spends. The UPA government's spending spree has inflated GDP; if its expenditure had grown at the same rate as the economy, the overall growth rate would have been 1 per cent lower. And if the bogus growth embodied in government expenditure were removed, the growth rate would come down to 4 per cent or thereabouts.

Thus, the bad luck in agriculture offsets the bad content of government growth; if both effects were discounted, the growth rate would be pretty close to the estimated 5.3 per cent. So it is impossible to avoid the conclusion that growth has slowed down precipitately in the last quarter. What is even more disturbing is that the slowdown is no longer confined to manufacturing. It has already spread to construction, hotels, trade, transport and communication; rapidly it is enveloping the whole economy.

This is no longer a sectoral slowdown; it is comprehensive, macroeconomic disaster. It is so serious that it is virtually impossible for the government to combat it. That should comfort our rulers, for they can continue to do what they are good at. They can continue to spend more and bloat the government, for government expenditure benefits the political class. And for the rest, they can make periodic statements that the catastrophe is nearly over, and that the economy will turn around in the three months, six months, or any other period of their choice.

If they were seriously concerned about its state, however, they would do two things. They would give industry investment incentives, to enable it to spend on increasing productivity and reducing costs; lower costs would improve industry's ability to withstand the crisis. And they would progressively devalue the rupee, to counteract the rapid worsening of the balance of payments.



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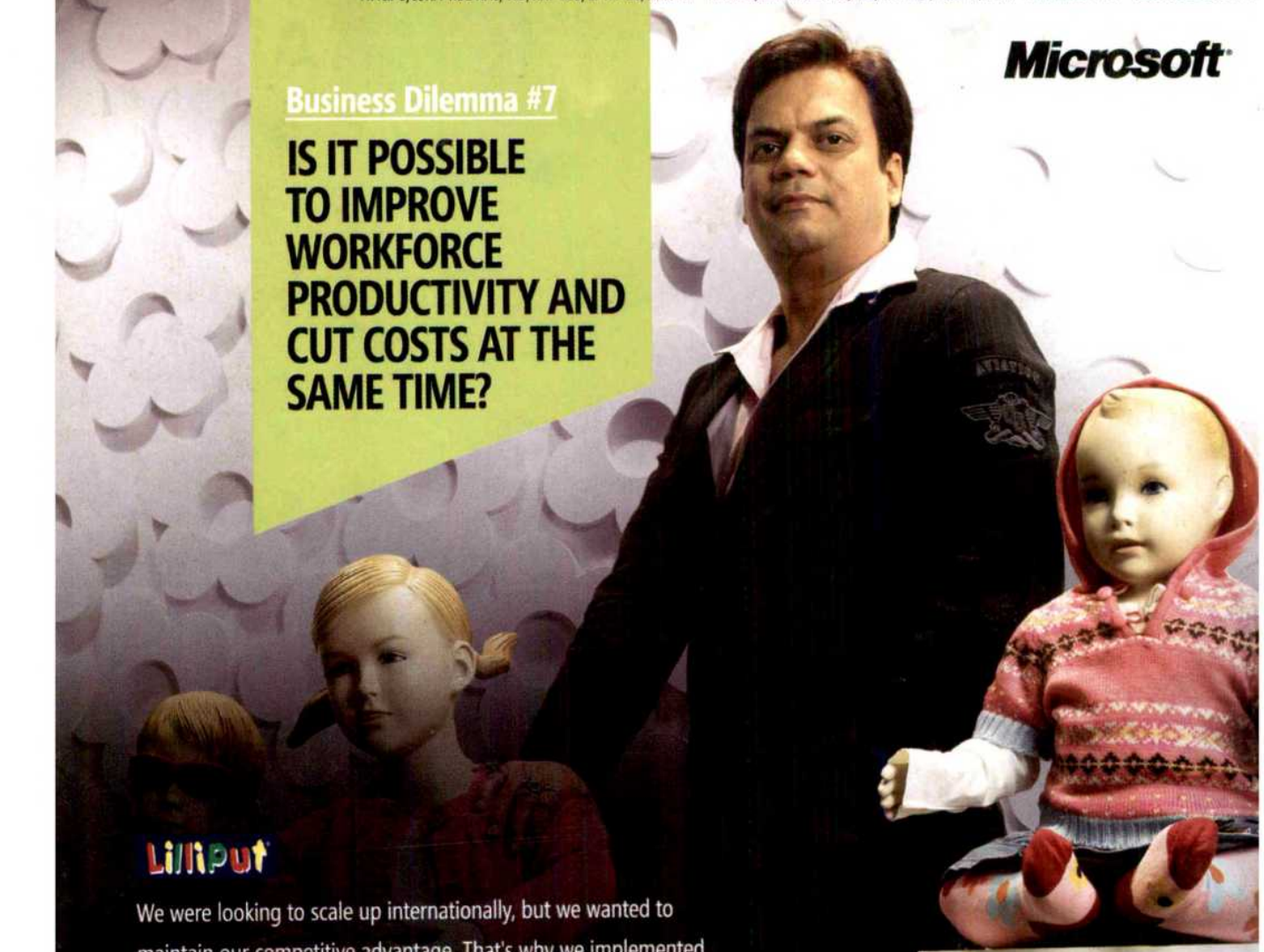

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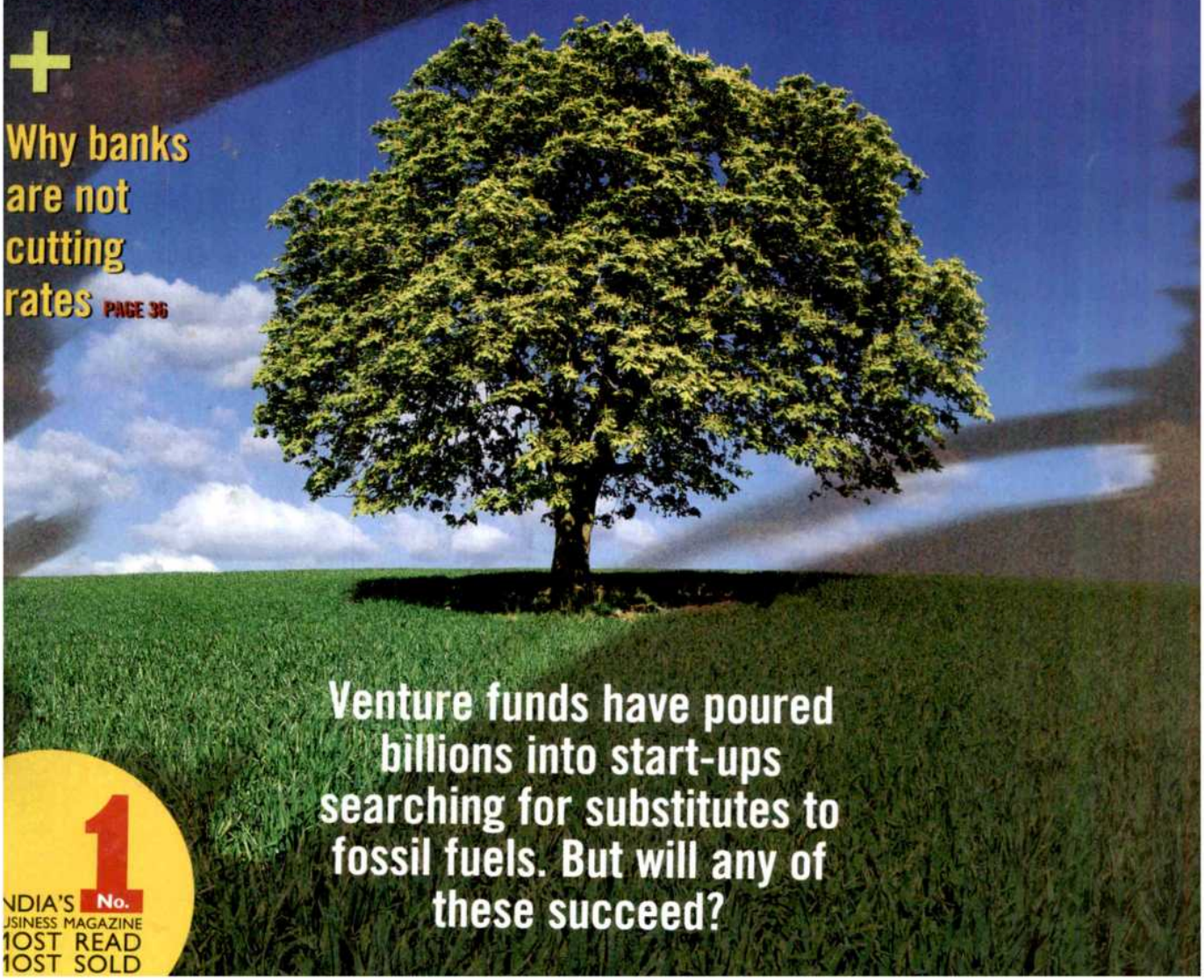

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Why banks are not cutting rates PAGE 36

Venture funds have poured billions into start-ups searching for substitutes to fossil fuels. But will any of these succeed?

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Searching For A Substitute

OIL HISTORIANS LOVE to claim that petroleum was known to mankind 5,000 years ago. Apparently the people of Babylon knew about it. Similarly, people of ancient Rome and China were supposed to be familiar with petroleum. For all those claims, petroleum as the favoured source of fuel is actually a 20th century phenomenon. Even in the late 19th century, coal dominated. And early engines created by Rudolf Diesel actually ran on vegetable oil.

It was sometime in the 1920s that petrol and diesel became the favoured fuels. Part of the reason was that hundreds of thousands of oil fields were being discovered, and techniques for extracting, refining and processing petroleum were improving by leaps and bounds. Oil was plentiful and cheap. So there was not much incentive to look for anything else.

It was in the 1970s, when the Opec countries decided to enforce an oil embargo as a response to the Yom Kippur war that the world woke up to some harsh facts. First, oil fields were concentrated in only a dozen odd countries. The US has significant oil fields and Canada has some as well. The Middle East Asian countries have huge oil reserves. Russia and the other states of the former USSR have good reserves. And of course, in recent times, Hugo Chavez's Venezuela has become one of the bigger players in the oil game. But the rest of the world is largely dependent on these countries for oil.

The US is the largest consumer of fossil fuels, and though it has huge reserves of oil, its gargantuan appetite ensures that it imports oil from other countries. That apart, the demand for oil is growing much faster than production increases and no really big oil fields have been discovered in recent times.

For over two decades now, people have wondered what would happen if oil starts running out. The interest in fossil fuel substitutes is a direct result of that fear. For some time now, money has been pouring into technologies that show some promise of replacing crude oil — from solar panels to biofuels.

Our senior editor P. Hari, who is based in the Silicon Valley, looked at where all this money has been going. And he assesses how far the world has come in its search for a crude oil substitute.

Prosenjit Datta

prosenjit datta, editor

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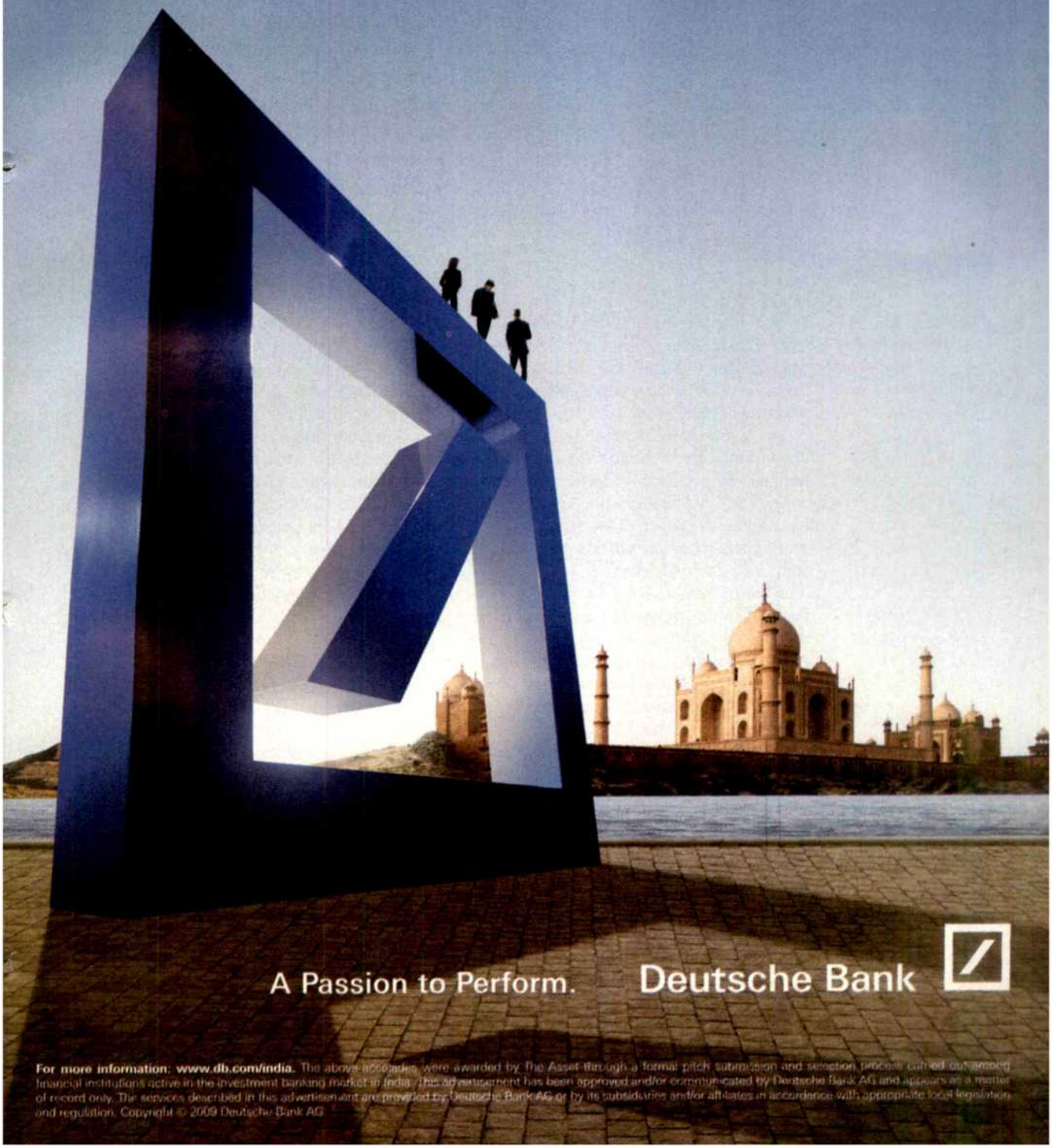
MUMBAI I NEW DELHI I AURANGABAD I BANGALORE I CHENNAI I GURGAON I KOLHAPUR I KOLKATA I NOIDA I PUNE I SALEM I VELLORE

The Best Bank – India
The Best Equity House – India

The Asset Country Awards November 2008



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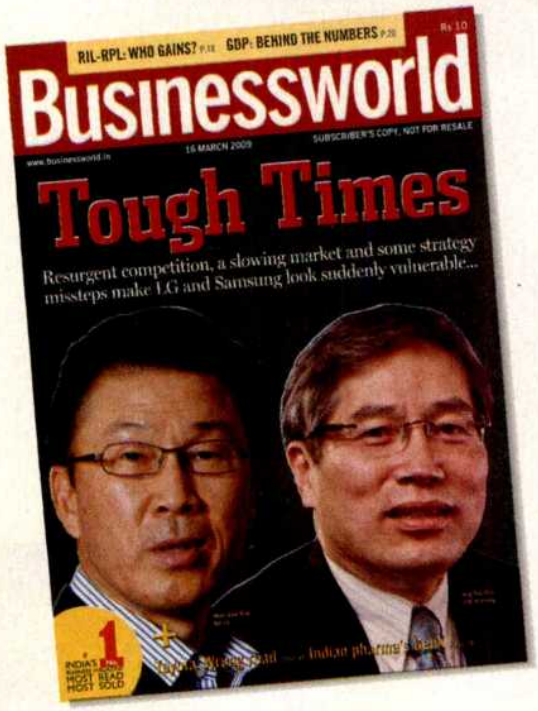

The Real Market

For consumer durable companies, the need of the hour is to consolidate on current strengths and create a wider distribution network to cater to future consumers ('Tough Times', *BW*, 16 March 2009). Companies are increasingly focusing on the urban customers, which is a wrong strategy. It has been repeatedly proven that future demand will come from rural markets of the country.

By concentrating on premium segments, companies such as LG and Samsung are missing out on a significant trend. It is the volumes that will decide the bottom lines of consumer electronics companies going forward, not flashy products meant for specific sections of consumers. India as an emerging market holds significant value for international companies.

Prashant Rajput, Warangal

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While we appreciate the efforts made by *BW* to track Samsung's strategy and market position over the past five years, we are disappointed at the anomalies in the analysis of the data presented ('Not So Durable', *BW*, 16 March 2009). Even assuming that the Crisil data used for the story is correct, it is clear that Samsung has been able to hold its market share. Against an industry growth of 12 per cent, Samsung has notched a growth of 25-30 per cent every year. Further, our growth has not come as a result of a 'misspelt' strategy, but a clear-cut one that has evolved over the years and has factored in the growth of the durable market that is fast spreading to B and C class cities. As far as the Samsung brand strength is concerned, our brand positioning has been consistent, even through our efforts of reaching out to a wider base of consumers.

R. Zutshi, deputy managing director, Samsung India Electronics

Time To Wake Up

It will be interesting to see what Toyota brings to the small car market ('On The Wrong Track', *BW*, 16 March 2009). The company is known for its 'value for money' reputation, which is significant in an Indian context. However, going by the latest trend, it is evident that consumers are open to paying a premium on cars if the styling is right. Figures suggest that Corolla Altis, owing to its good styling and competitive pricing, turned out to be a success for the company in India. Toyota should adopt a similar strategy for the small car as well.

Pranab Sharma, Nagpur

Irrational Move

It is difficult to understand the logic behind rate cuts ('Another Monetary Fix', *BW*, 16 March 2009). The RBI needs to ensure that banks start lending to key sectors and it cannot achieve that just by paring rates.

Soumya Banerjee, Kolkata

Clarification

The picture of the Indian Institute of Foreign Trade (IIFT), which was taken along with the story 'Doomed Fate For Deemed Universities' (BW, 9 March 2009), was meant only to show an existing deemed university and did not in any way imply that the fate of the institute was going to be affected by what the government may decide to do in future.

Letters may have been edited for brevity.

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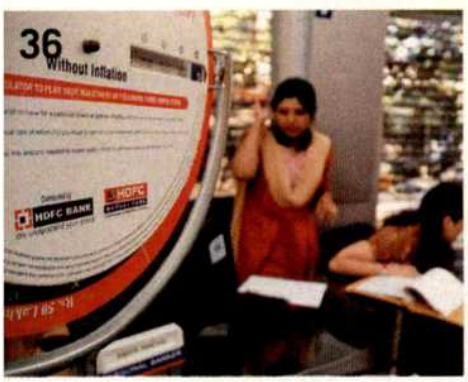

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PARTNER AND CO-HEAD OF GLOBAL INVESTMENT, **ROTHSCHILD**

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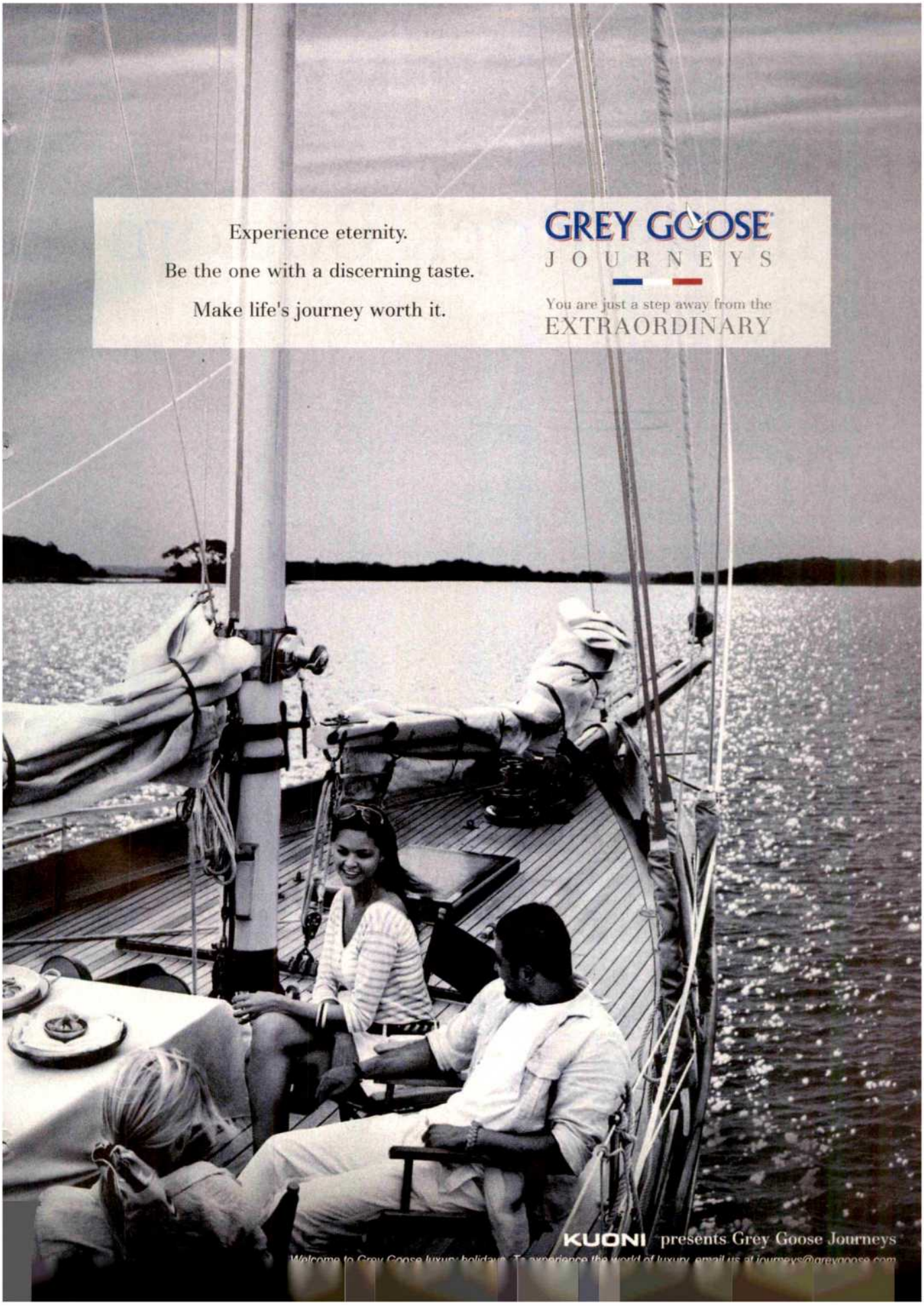
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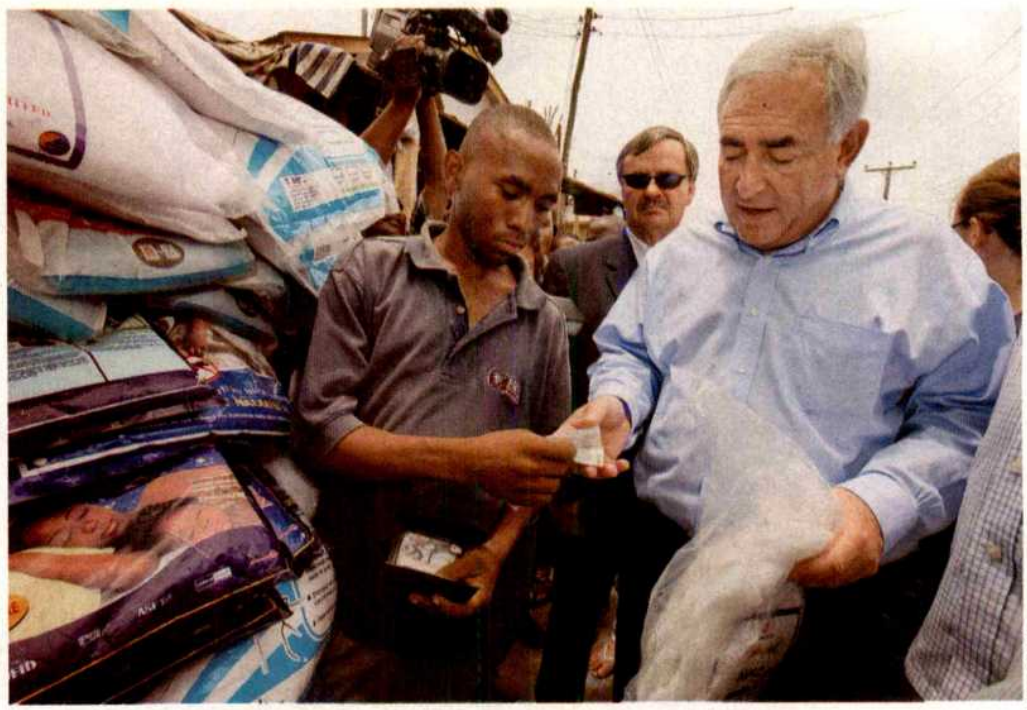
GLOBAL ECONOMY

Hitting Rock Bottom

IMF declares Great Recession, projects sub-zero growth for 2009



BLOOMBERG

SAFETY NETS OUT: IMF chief Dominique Strauss-Kahn shops in Dar es Salaam

COULD IT GET ANY worse? At a conference of African leaders in Dar es Salaam in Tanzania on 10 March, the managing director of the International Monetary Fund (IMF), Dominique Strauss-Kahn, said the world was entering a "Great Recession" of below zero growth. That is the lowest level since World War II ended in 1945.

The revisions to global economic growth prospects have been fast and furious. Just on 28 January, the IMF's latest update to its World Economic Outlook said that growth in 2009 would be just half a per cent.

That update was a revision from the forecasts made just over two months earlier, in November, which had already reduced global growth forecasts by 1.9 per cent for 2009! That update also put the global growth number for 2010 at 3 per cent; perhaps that will be revised too.

Should we in India still be feeling complacent? The 28 January update put GDP growth for India at 5.1 per cent in 2009 and 6.5 per cent in 2010. Strauss-Kahn did not provide any country specifics in his address, but we can be certain that there will be a downward revision from the 28 January India forecast.

The Indian government maintains that GDP growth for 2009 will be over 7 per cent; the chairman of the council of economic advisers, Suresh Tendulkar, and the Planning Commission's deputy chairman, Montek Singh Ahluwalia, continue to reinforce that message in public forums.

Lest we forget, Danish physicist Niels Bohr once said that prediction is very difficult, especially if it is about the future.

Srikanth Srinivas

$1 million. The compensation demanded by a student from US Airways for losing his XBox 360 unit.

QUOTE OF THE WEEK **"Sri Lanka needs to bring in political steps including devolution (of power)."**

— Foreign Secretary Shivshankar Menon

REAL ESTATE

Margin Play

Despite offering huge discounts, realtors are still making profits

REALTY FIRMS ARE making decent margins despite halving prices, raising questions about what their original margins could have been.

Major players such as DLF and Parasvnath have cut prices and are offering properties at half or even one-third the original quoted price. DLF has reduced the original booking prices across projects in various cities.

DLF recently slashed prices of its Westend Heights project in Bangalore by one-third and for another project in Hyderabad by 50 per cent. It also effected a cut in DLF Garden City project in Chennai after several buyers threatened to opt out if prices were not reduced to realistic levels.

"No one sells below cost and takes a loss," says a Gurgaon-based realtor. "When we reduce prices by 50 per cent, it means that we are still making a profit on it."

However, Unitech, the second-largest player, hasn't yet lowered its prices. Its latest launch, Uniworld Gardens II in Gurgaon, still commands Rs 2,995 per sq. ft. According to brokers, the launch price should have been in the range of Rs 2,100-2,200 per sq. ft.

As Frank Buchman, a US evangelist, once said: "There is enough in the world for everyone's need, but not enough for everyone's greed."

Anjuli Bhargava

TRIBHUWAN SHARMA

REAL PICTURE: Hit by a sharp fall in demand, realtors have been forced to cut prices

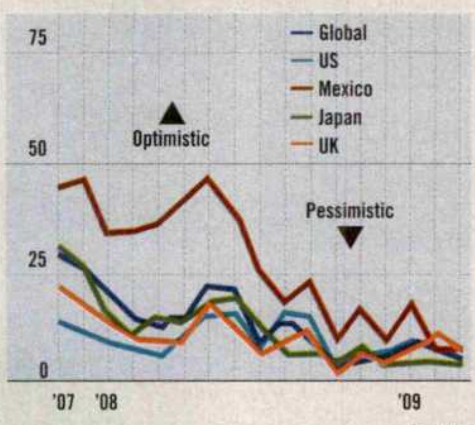
Global NEWS

Philippine President **Gloria Macapagal Arroyo** has signed the baselines bill, reiterating the country's claims to an additional 93 million hectares of territory in the South China Sea. The new baselines include some islands claimed by China. With this, the Philippines has met the deadline set by the UN to amend baselines laws by May.

GLOBAL CONFIDENCE SLIDE

Confidence in the world economy fell to 5.95 in March from 8.50 in February

Bloomberg Professional Economic Confidence Indices



Bloomberg

SPORTS

THE HOME ADVANTAGE

THE APPARENT DITHERING OF THE home cities of Indian Premier League (IPL) clubs over hosting of matches this year is somewhat strange. While it is reasonable that the local administrations do not want an added responsibility at the time of general elections, it is odd that they are not looking at the benefits of hosting IPL matches. Tourism, sports infrastructure, and the image of the city will all get a boost.

In the US, cities even subsidise the iconic local clubs to shine in the reflected glory of their famous clubs. Cities such as Jaipur and Kolkata would be losers if they let their IPL teams play even a few of their home games elsewhere, say Ahmedabad or Cuttack, which do not yet have their own IPL clubs. With IPL willing to reschedule games, it should not be hard, especially considering that under normal circumstances the administration would need its full might for elections only on three days — the last day of campaign, the polling day and the counting day.

Feroz Ahmed

New climate

Rajendra K. Pachauri, chairman of the United Nation's Intergovernmental Panel on Climate Change (IPCC) and director-general of the New Delhi-based The Energy Research Institute (Teri), has been appointed the head of the new Yale Climate and Energy Institute. The new institute will provide seed grants and foster research on topics from atmospheric science to public policy, the university says in a release.

AMIT VERMA

Solar power

US-based Astonfield Renewable Resources is planning to invest $2 billion (Rs 10,000 crore) in the next five years. "A major chunk of the investment will be used to set up solar power projects in India," says Sourabh Sen, co-chairman and director at Astonfield Group.

Special purpose

State-owned Gas Authority of India has acquired a 9 per cent stake in a petrochemical plant project of ONGC Petro-additions (OPaL), coming up at Dahej in Gujarat. OpaL is a special purpose vehicle created by the Oil and Natural Gas Corporation (ONGC) for executing the Rs 13,500-crore petrochemicals complex at Dahej.

Physical security

US-based GE Security has signed a partnership agreement with Wipro Infotech to offer physical security solutions in India. As per the agreement, Wipro will work with GE to build and deploy best-in-class physical security solutions for customers in India. "Now, we are looking at improving physical security aspects for government, defence, SEZs, campuses, enterprises, hospitality sector and other sensitive installations," says Anand Sankaran, senior vice-president and head of India and Middle East at Wipro Infotech.

Power deals

Reliance Power Transmission (RPTL), a subsidiary of Reliance Infrastructure, has signed power transmission agreements with eight power companies and departments for two inter-state power transmission projects, under the Western Region System Strengthening Scheme. "This is a major achievement that shall pave the way for attaining financial closure for these proj-

BIVASH BANERJEE

BW-THOMSON REUTERS M&A DEAL TRACKER

$29.24 billion The value of the Asian M&A market, which witnessed 1,084 deals as of 9 March 2009. China was the largest market in the region with 310 deals worth $8.16 billion.

Top Indian deals

TARGET	NATION	ACQUIRER	NATION	DEAL SIZE ($M)
Reliance Petroleum	India	Reliance Industries	India	2,014.20
ICT Group Inc.	US	Aegis BPO Services	India	96.10
Barasentosa Lestari	Indonesia	GMR Infrastructure	India	80.00
Orissa Sponge Iron & Steel	India	Mounteverest Trading & Invest	India	68.80
NeutraHealth	UK	Elder Pharmaceuticals	India	5.40
Rane Brake Linings	India	Undisclosed investor	Japan	1.60
Questar Investments	India	Titan Industries	India	NA
Turtle Group	India	Pantaloon Retail (India)	India	NA
Homeland Energy Group	Canada	GMR Energy	India	NA
Vanaik Spinning Mills	India	Oswal Leasing	India	NA

Figures for 22 February-7 March 2009

Figures for 1 January-9 March 2009

ects, costing Rs 1,800 crore," the company says in a release.

Sony's new language

Sony Pictures Television International (SPTI) has acquired Kolkata-based Bengali film channel, Channel 8, for an undisclosed sum. "We are excited by the prospects of Channel 8, and the revenue potential from the West Bengal region," says Andy Kaplan, president of SPTI.

Finance options

Tata Motors has tied up with State Bank of Mysore for financing its range of passenger vehicles. The facility will be available at all branches of State Bank of Mysore and 329 sales touchpoints

TRIBHUWAN SHARMA

of Tata Motors. The move comes at a time when private banks are cutting down on auto loans due to increasing defaults.

Capital ideas

Mumbai-based Allcargo Global Logistics has acquired about 6.1 million shares, or 5.97 per cent stake of the total paid up capital, from the open market of Sealand Terminals, the wholly owned subsidiary of the company.

Sodexo eats into the Indian market

French food services major Sodexo has picked up a majority stake in Bangalore-based Radhakrishna Hospitality Services Group (RKHS) for about Rs 500 crore. Post-acquisition, both the companies will combine their existing operations. RKHS Chairman Raju Shete will be the non-executive chairman of the new entity.

Personal stake

Manoj Kohli, CEO and joint managing director of Bharti Airtel, has sold his entire stake of 123,000 shares for Rs 7.20 crore. "I have sold my current holding in Bharti Airtel for personal reasons," says Kohli in a statement.

BLOOMBERG

AMIT VERMA

Game for change

New Delhi-based multiplex chain PVR has tied up with Thai entertainment firm Major Cinemas to open bowling alleys in India. "This is a step towards evolving PVR from a film entertainment company to a retail entertainment player with a focus to enhance the out-of-home entertainment experience," says Ajay Bijli, chairman and managing director of PVR.

India financial advisory rankings

Figures for 1 January-9 March 2009

Top Asian deals

TARGET	TARGET NATION	ACQUIRER	ACQUIRER NATION	DEAL SIZE ($M)
Reliance Petroleum	India	Reliance Industries	India	2,014.20
Guotou Electric Corp.	China	SDIC Huajing Power Hldg Co.	China	1103.37
Fortescue Metals Group	Australia	Hunan Hualing Iron & Steel Group	China	409.18
Verenex Energy Inc.	Canada	CNPC	China	338.88
KT Corp.	South Korea	KT Corp.*	South Korea	333.00
Ningbo Iron & Steel Co.	China	Shanghai Baosteel Group Corp.	China	295.90
Fortune View Enterprise	India	Premech Holdings	China	219.44
Muangthai Fortis Hldg Co.	Hong Kong	Kasikornbank	Thailand	202.86
Gloucester Coal	Thailand	Noble Group	Hong Kong	200.44
United Industrial Corp.	Australia	UOL Equity Investments	Singapore	164.95

Figures for 22 February-7 March 2009 *Buyback

Figures are based on ultimate parentage, meaning that an M&A deal carried out by a unit abroad will still be counted as that of the home country, provided the overseas unit is majority owned by the parent. Deal value is the total value of the consideration paid by the acquirer, excluding fees and expenses but including liabilities assumed. If the acquirer is buying 100 per cent of a non-financial company from a currently-held percentage of less than 50 per cent, deal value is calculated by subtracting the value of any liabilities assumed by the acquirer and adding the target's net debt. US dollar equivalents are computed using the exchange rate at the time of the deal's announced date. League tables are credited proportionately among financial advisors involved in a deal whether the firm participated as target or acquirer financial advisor.

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Quick Take

Do the falling rupee and dismal exports portend poorer Q4 results?

We asked... Amar Ambani, vice-president, research, India Infoline; Amit Azad, director, Azad Financial Services; Sanjay Dhawan, president and COO, Aricent; K. Ganesh, founder, TutorVista; Shrenik Ghodawat, MD, Ghodawat Energy; Subir Gokarn, chief economist, S&P, Asia Pacific; Gaurav Marya, president, Franchise India Holdings; Madavan Menon, MD, Thomas Cook India; Nitish Mittersain, CEO, Nazara Technologies; Rajiv Nath, forum coordinator, Association of Indian Medical Device Industry; Kishor Ostwal, MD, CNI Research; Sachin Sandhir, MD and country head, RICS; Ajay Trehan, CEO, AuthBridge.

"Yes. Banking, which outperformed in Q3, will record poor numbers in the last quarter."

Amar Ambani, vice-president, research, India Infoline

"Industry will do better in Q4 having absorbed the shocks of global meltdown in Q2 and Q3."

Kishor Ostwal, managing director, CNI Research

"Mounting currency hedge losses and limited ability to reduce costs are leading to lower margins."

Sanjay Dhawan, president and COO, Aricent

Yes 62%

YES BECAUSE: The momentum in many sectors continues to be negative. Companies will find it very difficult to maintain their growth levels amid tough economic conditions, which will continue through the rest of the year. Government measures (stimulus packages) have just started to show some efficacy, and will not affect the fourth quarter earning to a large extent. Although some sectors — such as automobiles — are showing an upward move, the real estate industry is reeling under severe funds crunch. For export-oriented companies, the advantages of a falling rupee in the past two months will become apparent only after a lag of at least three months. Depreciated rupee will help IT report higher revenues, but there will be forex losses for some companies due to the volatile currency moves.

No 15%

NO BECAUSE: Having absorbed the shocks of global meltdown in the second and third quarter of financial year 2008-09, companies are expected to perform better in the fourth quarter. By the beginning of the current quarter, many organisations had initiated cost-cutting measures such as trimming workforce and reducing production. Demand has also improved in sectors such as cement, automobiles and banking — a 29 per cent increase in passenger car sales in February is testimony to that. Further, the depreciating rupee is easing the woes of IT, ITeS and other export-oriented firms. The Centre's liquidity injection into infrastructure sector will stimulate growth in all the industries connected to it. However, overall earnings of India Inc. will be below expectations in the fourth quarter.

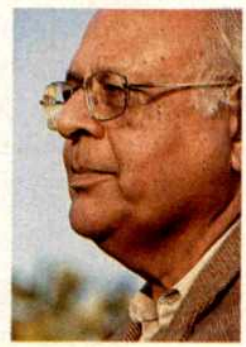
Maybe 23%

MAYBE BECAUSE: Most of corporate India is facing a situation where the upside due to the falling rupee is more than offset by fast decline in demand for goods and services, mounting currency hedge losses and limited ability to reduce costs. High passenger car sales and decreasing inflation might have lulled some into believing that the worst is over. But the ground realities are different — companies are resorting to layoffs, and production and overhead cuts to protect their bottom lines. Banks, which performed well in the third quarter, will record poor numbers in the last quarter owing to low fund dispersal rate and rising delinquencies. However, with falling inflation and interest rates — and provided banks start lending again — there may be some revival by Q1-end of FY2010.

An Extortion Racket

by ashok v. desai

AN APPLE CAN BE PLUCKED FROM A TREE AND eaten; that is more or less true of everything that animals eat. Man, however, is more demanding; little of what he eats can be eaten unprocessed. Many even think that unprocessed food is unhygienic. (Actually, whilst boiled food is invariably 'hygienic' in the sense that bacteria in it have been killed, all other things are unhygienic, but few of them so unhygienic as to be risky.) Indians cannot live without cereals, and all cereals must be processed. Of the two principal ones, rice is easier to process; it has just to be deprived of its shell. Sophisticated people eat it "polished"; that is, it is rubbed together, usually by being shaken up and thrown round and round in drums, until it loses the loose particles on its surface and looks white.



The government should buy wheat from the market by monthly tenders to cover its requirements

One wishes wheat were that cooperative. South Indians, used to rice, were confused when they first saw wheat in the 1950s. India was short of foodgrains, the government of India had got a gift of wheat from the United States, and it was sent straight from ships to ration shops. South Indians thought it was an inferior kind of rice. They boiled it and ate it. Actually, wheat can be eaten boiled; the British sometimes eat it as a salad. But to be eaten boiled, it has to be uniformly tender. Otherwise some of its grains may remain hard, and eating such half-cooked wheat will give one a stomachache. So nowadays, even the most uneducated south Indians eat pancakes made of wheat, which north Indians call rotis or chapatis, and Gujaratis call rotlis. They do not make these flat round things straight out of milled wheat. They usually remove chaff-milled skin of wheat — from the flour by shaking it until the lighter chaff rises to the top and can be skimmed off. The flour that remains is whiter and finer; the flat round things made from it disintegrate more easily in the mouth, and have a somewhat different taste.

In the belief that it is thereby giving the country "food security" and protecting poor people from starvation, our government buys up much wheat and rice and gives it to Food Corporation of India, one of its most corrupt daughters as proved by Kirit Parikh before he became a government servant. It distributes some of the grain through ration shops, which are supposed to sell it only to "poor" people possessing ration cards at low prices. Quite a good deal leaks into the open market, and politicians and traders illegally earn the fat margins between the ration and the market price.

The market gets the difference between farmers' surplus and what the government buys off from it. This surplus is quite large in rice, since the country grows more rice than the government can sell through its ration shops and generally more rice than the country can consume; the difference is exported. In wheat, though, what is left for the market is less than what people are prepared to buy.

Since the government buys from farmers at prices much below the market price, FCI could make huge profits by selling its wheat in the market. But as I said, wheat cannot be eaten; it has to be turned into flour. So FCI sells to wheat millers. The government would like to maximize its own profits, so it makes FCI auction the wheat it sells to millers. It would like the smallest miller to get a chance, so it has forced FCI to auction the wheat in lots of 1,000 tons. But an auction would deprive FCI officials of bribes. So they delay issue of tenders; and once the wheat is auctioned, they delay its delivery. The bribes they can get depend on the difference between the tender price and the market price. So FCI officials keep watching the market prices, and try to auction wheat when market prices are high.

The government has given up the power to regulate wheat imports. So if FCI starves the millers of wheat, they simply get a shipload or two from Australia. When it arrives, market prices come down, and FCI officials are back to square one. The net effect is that the bribe rates are much below FCI officials' asking rates, FCI is not managing to sell all the wheat it could in the open market, and imports are greater than they would be in the absence of the government's wheat purchase operations.

One solution would be for the government to dismantle the public distribution system, which enriches politicians and intermediaries more than it benefits the poor. Precisely for that reason, it will not happen. The next best solution, which the government should consider, is for it to stop privileged purchases from farmers, and to buy the wheat it needs for the public distribution by tender every month; it will then get the wheat at the lowest price.

The author is Consultant Editor of *Businessworld*.
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MINING

Sterlite's Costly Acquisition

Even at the lower price, Asarco may not be a value proposition

IT TOOK NINE MONTHS AND A 50 per cent drop in copper prices for metals and mining company Sterlite Industries to renegotiate prices of Asarco assets. Sterlite — which is part of the Anil Agarwal-owned London-based Vedanta group and is into commodity businesses of zinc, aluminium and copper — recently inked a new deal to buy operational assets of US copper producer Asarco for $1.7 billion (Rs 8,774 crore). This is 35 per cent lesser than what Sterlite quoted in May last year. While the changed global economic conditions and bleaker outlook for copper demand have made it possible for Sterlite to buy it at a lower price, it is still not a bargain.

ASARCO'S ASSETS

Proven reserves
5 million tonnes

Mining capacity
250,000 tpa*

Smelting capacity
275,000 tpa*

Refining capacity
500,000 tpa*

Current cash of refined copper#
$3,150 per tonne

* Tonnes per annum
# After taking into accounts by-product credits

FINANCIALS*

Revenues
$1,900 million

Profits before tax
$393 million

*For year ended December 2008
Source: IIFL, the institutional arm of India Infoline

Asarco with its three open-pit mines in Arizona — Ray, Silver Bell and Mission — has one of the highest mining costs. With a cost of production of $3,150 per tonne, Asarco falls among the bottom 10 per cent of miners globally, when it comes to cost efficiencies.

The average ore grade for Asarco is 0.5 per cent, which is a lower grade. Mission, for instance, has average grade of 0.67 per cent, and for every tonne of ore it produces, three tonnes of waste rock need to be removed. As per mining experts, only enormous scale and efficiency of open pit mining operation could make such low-grade deposit economically viable. While the operation is profitable now, a lot depends on the future trajectory of copper prices.

For the moment the prices are just hovering above the marginal cost of mining. At current copper price of $3,600 per tonne, Asarco's marginal cost is just about $450 lesser.

But then, unlike other metals such as aluminium and zinc, the downside price risk is greater for copper, according to a research report by IIFL, the institutional arm of India Infoline. "Aluminium and zinc are currently 20-30 per cent below marginal cost of production. The current copper price is more than three times the bottom of $1,333 per tonne, whereas aluminium is close to its 10-year bottom and zinc about 50 per cent higher than its bottom," it says.

Asarco operations are unlikely to help source copper concentrate for its Indian smelting operations. In contrast, "Asarco will operate as an integrated producer with its mining, smelting and refining operations in the US, while Indian smelting operations will continue to source copper concentrate from third parties," says Sumanth Cidambi, director for investor relations at Sterlite Industries.

So, Sterlite is far from becoming an integrated copper producer. Till date, the company has largely remained a custom smelter. It sources 92 per cent of its copper concentrates from third parties while the rest comes from its Australian mines.

Non-integrated operations would mean having to live with higher profit fluctuations, which do not always move in tandem with copper prices. In 2007, higher copper prices combined with a marked deficit in copper concentrate led to substantial percentage of profits going to the miners.

Cidambi says the company when arriving at the valuation for Asarco did its math based on long-term copper price of $4,000 per tonne (till 2013). Longer recessionary trends in the global economy and delay in infrastructure spending from China could affect copper demand significantly, bringing down prices.

Reena Walia, base metals analyst at Angel Commodities, is bullish on the red metal. "We have a bullish view for FY2009 and feel that prices could trade at higher levels between $4,500 and $5,500," she says.

For the moment at least, the Sterlite management would not be red faced.

Muthukumar K.

ADVT

Where relations go beyond banking

Standard Chartered Bank introduces the CXO club for its valued customers

Standard Chartered Bank has always endeavored to nurture relationships and strengthen its bonds with its valued customers and has very recently started an exclusive club called the CXO club for the CXO's of the crème Corporate Pay Roll customers.

"This club is exclusive in nature and membership is by invitation only. The CXO club is envisaged to unwind, relax and bring together like minded people and also ensure that they enjoy some special memorable moments", opines Mr. Sai Narain CDK, Head – Consumer Transaction Banking, Standard Chartered Bank. Like *Theatre* this year, we will choose an appropriate theme that will appeal to our customers, every year.

Following a successful run in Delhi & Bangalore, the Mumbai edition of the first event of the CXO club was held on the 7th of March at J W Marriott with a supper theatre evening arranged for the elite guests.

The 300 strong gathering enjoyed to the hilt, the efforts of the team EVAM, which performed a hilarious spoof of Shakespeare's famous play, HAMLET. The all male cast of three enacted the entire play in just about an hour, playing eight characters between them, including two women.

"The evening was dedicated especially to us spending some quality time with the Bank's elite customers & their spouse, outside the ambit of banking" felt Ms. Sujatha Parthasarathi, Head, Business Development & Corporate Payment Solutions, Standard Chartered Bank.

The evening was made special by the presence of Mr. Shyam Srinivasan - Country Head, Consumer Banking, India; Mr. Anurag Adlakha - Chief Finance Officer, India and South Asia; Ms. Geraldine Matchaba - Head, Corporate Affairs, India and other senior members from the management team.

The evening was made even more special with the celebration of the International Women's Day towards the end of the evening.

Standard Chartered Bank through this effort has proven how even in these delicate times, customer centricity is still at the core of everything that the Bank does. The event underlines the importance the Bank lays to stay connected with its customers, to partner them in essence and to create moments to cherish for a lifetime.

No wonder then, that the Bank has garnered exclusive awards such as the Financial Express E & Y Best Banks 2009 Award for being India's Most Profitable Bank. What's more the Government of India has honored Standard Chartered Bank by launching a commemorative postal stamp to mark Standard Chartered's 150 years of operations in India.

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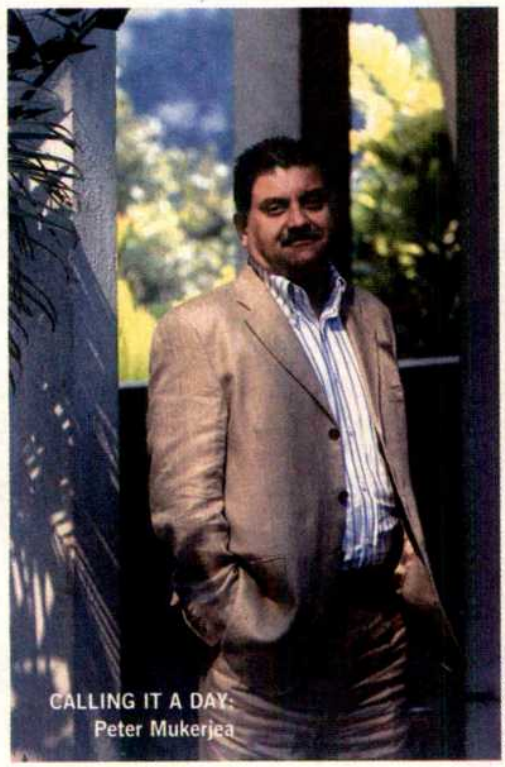
MEDIA

Sudden Departure At INX

Promoters quit as investors clamour for professional management



CALLING IT A DAY: Peter Mukerjea

HEMANT MISHRA

AS THE EMPLOYEES OF INX MEDIA — THE COMPANY that owns 9X and 9XM television channels — prepared to celebrate Holi on Tuesday evening on the terrace of their Central Mumbai office, a terse internal communication announced that Peter Mukerjea, the initial promoter of the network, was stepping down as chairman immediately, while his wife Indrani Mukerjea, INX Media's CEO, would demit office later on 30 April.

The announcement that had the news wires buzzing also clarified that the Mukerjeas would continue to hold their stake in the company. To add to the drama, former Zee TV CEO Pradeep Guha was appointed as a consultant to run the network as an interim measure. His mandate: to put the house in order and appoint a new CEO.

Now, what are the options for the investors in INX Media? They could either find a buyer for the ailing channels and exit completely; or refloat the network on their own or in alliance with other equity partners. INX's foreign investors include Temasek Holdings, New Vernon, New Silk Route and Srei Capital — together they hold about 60 per cent. Indian investors include Kotak Mahindra. The Mukerjeas hold sweat equity estimated at 10-12 per cent.

INX Media had earlier opened negotiations with Balaji Telefilms for a sale of the broadcasting network. The news channel, NewsX, owned by another corporate entity, INX News, was also recently sold to IndiMedia. Peter Mukerjea said a sale to Balaji was a "possibility". But he was not forthcoming on why he quit. His statement read: "It was time to move on to new pastures."

Balaji, a television content production house, has been looking to diversify from its traditional business for some time. A functioning broadcasting setup with a music and general entertainment channel will provide ideal synergy for a content house sitting on hundreds of hours of film and television programming.

Earlier attempts at a sale have not worked and, considering the current downturn, the Balaji talks may lead nowhere. Six months ago, New Vernon opened talks with Multi Screen Media (MSM) for merging INX Media through a share-swap arrangement with the Sony network in India. However, valuation jinxed the deal. "They demanded $300 million, a valuation four times their revenue," says a senior Sony functionary. "They had the news channel as part of the package, too. MSM's majority partner Sony Pictures is against running news channels."

With a freeze on funds, things have spiralled out of control in the past six months. Since October — when the film and television workers went on strike — no new programmes have been launched on 9X except a serial *Black*. More than 150 employees have been sacked or allowed to quit including head of programming Kumud Chaudhary and brand director Anthony Petiffer.

What forced the exit of the Mukerjeas? "The investors had been pushing for professional management and to get Indrani Mukerjea to take a step down," says a senior INX Group executive. "Peter did not agree, and preferred to step down with her."

Pradeep Guha, who has taken over as interim head and consultant, does not think the task ahead is easy. "The main challenge will be getting the entertainment channel going."

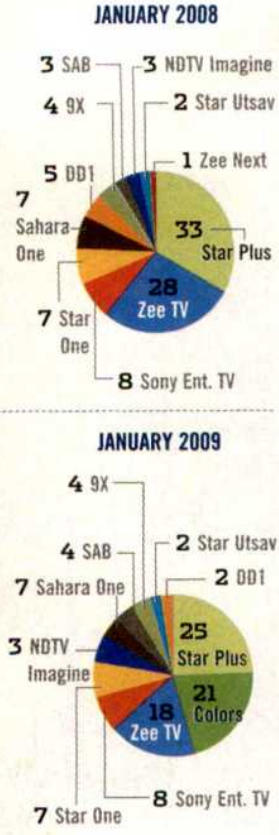
9X is towards the bottom of the heap with barely a 3-4 per cent share (see 'Standing Still'). And the competition is only getting sharper. To add to the existing Hindi entertainment channels, the Turner-Alva Brothers alliance has just launched another channel, Real, this month.

Guha has an unenviable job at hand.

Gurbir Singh

Standing Still

9X's market share has remained stagnant



Source: TAM Peoplemeter System
Period: 1 Jan to 31 Jan '08, '09
TG: CS 4+ years
Figures are share in per cent

*
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*
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ABAN OFFSHORE

Floating On A Sea Of Debt

A $2.2-billion acquisition threatens to hurt India's largest drilling firm

RECESSION HAS TAUGHT THE WORLD ONE VALUABLE lesson — always expand your business in a bear phase and not the other way round. Chennai-based Aban Offshore, India's largest offshore oil drilling contractor, which ventured out in 2006 to acquire Norwegian drilling major Sinvest at an enterprise value of $2.2 billion, mostly in debt, is learning this in a rather harsh manner.

Though the acquisition of Sinvest when the stockmarket was soaring added instant power to Aban's global operations with eight more jack up rigs to take the total to around 20 at a time when oil prices were northward bound, it brought in a huge $3.1-billion (Rs 15,800 crore) debt in a balance sheet of Rs 2,000 crore-plus, mainly through borrowing from a clutch of banks including ICICI Bank, Punjab National Bank (PNB) and Axis Bank, and partly through bonds worth 1,000 million Norwegian Krone or $207 million.

Soon the unthinkable happened for Aban. Crude prices crashed to $40 per barrel from $147 per barrel in July 2008, hitting large exploration plans of global oil majors. As these investments were committed by pegging crude at a lower limit of $60 per barrel, anything below this benchmark made no economic sense.

While every offshore drilling company was hit, analysts say Aban was affected more due to high leverage of 16 times. The lenders are now seeking a rescheduling of the entire or part of the loan.

Manoj Bahtey, analyst at Edelweiss Capital, says the debt-equity ratio for 2007-08 was 16 times. Considering the non-convertible redeemable preference shares as debt, this would be 26.3 times. Preference shares are redeemable at par during 2011 and 2012. "The loan book has increased from Rs 1,100 crore in 2005-06 to Rs 13,000 crore in 2007-08 primarily due to the Sinvest acquisition," says Bahtey. "Of this, loan repayable in 2008-09 is Rs 1,700 crore — eight times the net cash from 2007-08 operations."

Aban's problems are more complex; it needs to get contracts for idle rigs, which will provide much needed cash flow to service the debt. Currently, out of total 21 rigs, only 15 are working and six major rigs are lying idle. The rig, Deep Driller 7, is looking for new contract while the delay in the deployment of high-end rigs, Aban Pearl and Aban Ice, has cut down the cash flows further. The operating day rates may come down on worsening economic woes and lowering viability of projects. Comparatively, nearest competitor Garware Offshore had better revenue mix due to re-pricing of assets at higher day rates in spot market and timely addition of two new vessels, while Shiv Vani Oil and Gas Exploration Services has tied up contracts for all new assets.

Dhaval Joshi, analyst at Asit Mehta Investment Intermediaries, says that given the depressing conditions, the demand for rigs will not be as strong as in the past and with E&P companies deferring their exploration plans further, day rates, which ruled at $400,000, may come under considerable strain. "Since Sinvest rigs are on short-term contracts, there may be gaps in contracts in 2009-10," he says. Aban Offshore had disappointing results in the third quarter of 2008-09 with sales remaining flat (sequentially) at Rs 836 crore and net profit at Rs 250 crore, down 4 per cent. The saving grace was the other income of Rs 160 crore from forex gains on the restatement of Norway Kroner denominated bonds.

The crisis may not be immediate but could ruin its future party. Analysts say that while interest servicing is not an issue, servicing the principal is, and that is forcing the company to refinance the debt. True, the company can find solace in the $3-billion order book, which adds some certainty to the cash flow for now, while it had cash and cash equivalents of Rs 645 crore last financial year. But with the market factoring in future agonies of Aban, the stock has come down from Rs 4,292 to trade currently at Rs 236, making an equity dilution a more offshore dream.

Sreevalsan Menon

BLOOMBERG

CRUDE SHOCK: The collapse of crude oil prices has hit most offshore drilling companies

TELECOM

Change Of Guard

The rejig of Bharti Airtel's top management raises a few questions

SANJAY SAKARIA

MAKING A BUZZ: Manoj Kohli, CEO and joint managing director of Bharti Airtel

BHARTI AIRTEL HAS STIRRED UP ITS MANAGEMENT team. Manoj Kohli, CEO and joint managing director, will no longer manage the day-to-day activities of the company but focus on a transformation programme, including creation of factories such as enterprises business and shared services. Sanjay Kapoor, who was hitherto president-mobile services, will now take charge of the operations after being elevated as deputy CEO. Kapoor will report to Kohli, but he will be free to take decisions on the mobile business, says a senior Bharti Airtel executive.

Curiously, these changes in portfolio came on 12 March when Kohli sold shares of Bharti Airtel for about Rs 4 crore, triggering a 6.37 per cent fall in the Sensex. Bharti Airtel informed the Bombay Stock Exchange (BSE) on 9 March that Kohli has sold 70,000 shares from the current holding in Bharti Airtel. Sunil B. Mittal, chairman & managing director, said, "All insiders need to take permission before sale or purchase of shares, and even in this case due permission was sought and given to Manoj."

Kohli continues to hold 180,000 shares in Bharti. Scotching rumours about Kohli's exit from the company, Mittal said, "Manoj continues to lead the company as the CEO & joint managing director and a member on the Board, working directly with me."

"It was badly managed even if the money had to be raised," says a former senior Bharti employee. "The company has failed to protect its interest as well as Kohli's by not announcing the restructuring prior to his informing BSE." Clearly, the drama could have been avoided.

M. Rajendran

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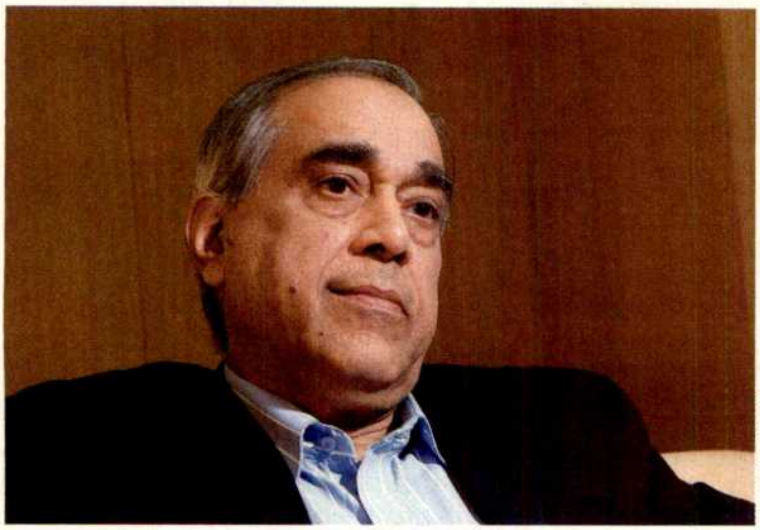
TELECOM

Who Will Take The Call?



TRIBHUWAN SHARMA

For the first time, technocrats are vying with bureaucrats to be the next Trai chief

AS THE TELECOM REGULATORY AUTHORITY OF INDIA (Trai) looks for a new chief, noises to select an 'independent' head, who is not from the bureaucracy, are already growing louder within and outside the government.

When the last date for receiving applications ended on 6 March, there were 29 contenders for the post. Of them, 13 were found eligible by the steering committee that met on 9 March, and 16 were rejected. Among the eligible 13, seven were technocrats and six were from the IAS (Indian Administrative Service). The final shortlist only features 10 names.

The seven technocrats who may be examined by the screening committee before they are sent to the DoPT are: Surendra Pal, associate and programme director, ISRO Satellite Centre; Pulapaka Venkata Ramdas, vice-president, technology-BPO services, HCL; Ravinder Kaur Batra, empanelled counsel of the Central government for 15 years; Sukhbir Singh, member, Electrical Railway Board; Sahib Dayal Saxena, retired director (finance), BSNL; G.S. Grover, retired member, Telecom Commission; K. Sridhara, member, Telecom Commission. The last non-bureaucrat to head Trai was M.S. Verma, a career banker, who took charge in March 2000 (see 'The Contenders').

"Ten names would be sent to the Department of Personnel and Training (DoPT), of which six will be from the IAS," a source in the screening committee says. DoT Secretary, Siddhartha Behura, who was considered a hot favourite, went out of contention in the final screening.

The selection of a new chairman assumes significance with the Trai Amendment Bill (2008) pending before the Parliamentary Standing Committee of the Lok Sabha, which is to discuss an amendment to Section 4 of the Trai Act 2000 relating to the qualifications required for the post of chairman and members. The Bill was introduced in the Rajya Sabha in December 2008.

One critical clause that DoT wants to insert in the Act through an amendment is to expand the eligibility criteria to include those senior bureaucrats who have left government services.

The Parliamentary Standing Committee met on 9 February to discuss the proposed amendments. But DoT had issued an advertisement to fill the post of chairman four days earlier, on 5 February. "Trai cannot function without a chairman; the post will fall vacant on 22 March," said a senior DoT official, justifying the ad.

Prashant Singhal, partner at Ernst & Young, feels that more than any individual, it is the government's commitment to have an independent person head Trai that needs to be reflected in the appointment. "Satyam is a perfect example," Singhal says. "The government did identify non-bureaucrats for the critical operation and regulation of a company. They are certainly capable of finding one for Trai."

Meanwhile, the telecom and broadcasting watchdog is at another critical stage — market-related issues such as interconnect pricing will have to be addressed by Trai soon.

M. Rajendran

REGIME CHANGE: The current Trai chairman, Nirpendra Misra, will retire on 22 March

THE CONTENDERS

Surendra Pal
Associate director and programme director (Satellite Navigation Program) ISRO Satellite Centre Bangalore

Pulapaka Venkata Ramdas
Vice-president, technology-BPO services, HCL Noida

Ravinder Kaur Batra
Empanelled counsel of the central government for the past 15 years

Sukhbir Singh
Member (electrical), Railway Board

Sahib Dayal Saxena
Retired director (finance), BSNL

G.S. Grover
Retired member (services), Telecom Commission

K. Sridhara
Member (technology), Telecom Commission

PHARMACEUTICALS

The Second Wave

Mega deals in quick succession are rocking the global pharma industry

BLOOMBERG

HOT DEAL: Roche Holding will up its stake in Genentech to 100 per cent by paying $47 billion in cash

THREE DEALS THAT TOP $150 BILLION IN VALUE have been announced in the global pharma industry this year. While this month, US-based Merck & Co. acquired Schering Plough for $41 billion and Swiss drug maker Roche announced $47 billion plans to buy an additional 44 per cent in Genentech, in January, Pfizer Inc. had announced the $68 billion purchase of Wyeth. Aimed at cutting costs and bolstering research pipelines, the mergers are reminiscent of the last round of dealmaking in the late 1990s. And at that time it had roiled some Indian subsidiaries.

In 1998, Germany's Hoechst Marion Roussel merged with France's Rhone Poulenc to form Aventis. In 2000, US's Abbott acquired Knoll from Germany's BASF. In the restructuring that followed, one Indian arm of each "combined" firm was sold. The Indian arms had little in common with their parent firm with decades-old products that had long fallen off the parent's radar. It was clearly difficult to extrapolate synergies seen from a global merger. The Indian pharma market also figured low in Big Pharma's priorities at that time.

India has recently emerged as an important market. "Every MNC knows you need an India piece," said Naveen Rao, managing director MSD, the Indian subsidiary of Merck. MNC arms have trimmed manufacturing and unprofitable products to try and mirror the parent's portfolio. Some, such as Merck, that exited in the 1980s are back with a new focus. This time around, there may be no such sell-offs.

Gauri Kamath

Nominations are invited for

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Earlier recipients of the Award are: Dr. E. Sreedharan, 2008; Dr. M. S. Swaminathan, 2007; Dr. Naresh Trehan, 2006; Dr. C. P. Srivastava, 2005; Smt. Ela Ramesh Bhatt, 2004; Dr. R. A. Mashelkar, 2003; Shri N. R. Narayana Murthy, 2002; Shri Sam Pitroda, 2001 and Prof. C. K. Prahlad, 2000.

Nominations may be sent in confidence to the undersigned latest by April 30, 2009.

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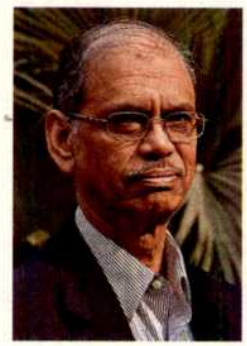
Chairman, LBSIM, Delhi

Globalisation Disrupted

by nayan chanda

IS IT TIME TO SAY GOODBYE TO GLOBALISATION? Many have already proclaimed its death, and the current crisis merely marks its unceremonious burial for them. Watching how the world seems to be collapsing around us, such a prognosis seems plausible. But from a historical perspective, the current crisis and the accompanying social turmoil echo many wrenching readjustments from the past. The only differences today lie in the scale of the crisis, the speed of change and its global visibility.



Resurrecting trade barriers could stifle prospects of recovery that globalised production promises

Past disruptions to global integration, whether through the Bubonic Plague, the Industrial Revolution or the Great Depression, affected much smaller sections of the planet, and that too at a comparatively gentle pace. The acceleration of transport and communication, and reduced barriers to trade over the past three decades have created wealth at an unprecedented scale and speed. The reversal too has come at a shocking pace.

Nothing illustrates the speed of the reversal more than the sharp and synchronised drop in global trade since the crisis erupted last September. According to the IMF, world trade volumes are expected to fall by 2.8 per cent this year — the first time in a quarter century that global trade will decline. The value of China's exports fell by 18 per cent in January (year-on-year) and Japan's fell by 47 per cent. How do we explain this dramatic collapse across the board? The drying up of credit for exporters, rising unemployment and plunging consumer demand spawned by the collapse of the financial sectors are easy to identify as reasons for falling trade.

A less obvious, but perhaps more pertinent explanation for the rapidity of the collapse is the vertical specialisation of manufactured products. A recent study, 'The Collapse of Global Trade, Murky Protectionism, and the Crisis: Recommendations for the G20', suggests that "widespread use of international supply chains" might be a major factor. Currently, as much as 40 per cent of manufactured products originate from supply chains spanning continents. Whatever their 'made in' labels may suggest, when a car or a refrigerator or a television reaches a consumer, it contains parts that have circled the earth many times at different stages of production. This process has enabled reduction in production costs and made efficient uses of manpower and resources in producer countries. The benefits of industrialisation have spread around the globe. This vertical specialisation has been possible thanks to the dramatic drop in transportation and communication costs and tariff barriers. Since the goods-in-process cross many borders, falling tariffs in particular have boosted this type of production.

The gains achieved through this process are now revealing their downside. As the US cuts back on its demand for personal computers, countries supplying PC components have fewer orders to fill. When they, in turn, stop importing processing chip or other US-supplied parts, American exports also fall and the impact ripples throughout the supply chain. As much of global trade is linked to production chains, pulling the plug in one location causes shockwaves all around, driving down trade in a more synchronised manner than it would in a less integrated world.

One effect of the supply chain production system is multiple counting of the components and semi-assembled products as they repeatedly cross borders. An imported transmission in a car that is exported is counted twice in trade statistics: once as an export component and once as an import, embedded in the car. The synchronised drop in trade numbers it has produced tends to magnify the psychological impact of the fall.

As global demand contracts, countries are tempted to protect their export industries by offering subsidies and raising both tariff and non-tariff barriers. According to the World Bank, various governments have proposed or enacted 78 trade restricting measures to protect domestic industries since the crisis began. Although the impact of these measures are hard to judge at this point, they are likely to add to the spiral of contraction. Attempts to protect a country, which is part of an interlinked production organism, by shutting out others ultimately risks hurting the very country politicians are seeking to protect.

In this dismal beggar-thy-neighbour scenario, one can only hope that countries that benefited from vertically specialised industries will be careful not to undermine prospects for recovery by resurrecting trade barriers. Because when the recovery begins, it will be those very industries who could be in the best position to propel a synchronised rise in world trade.

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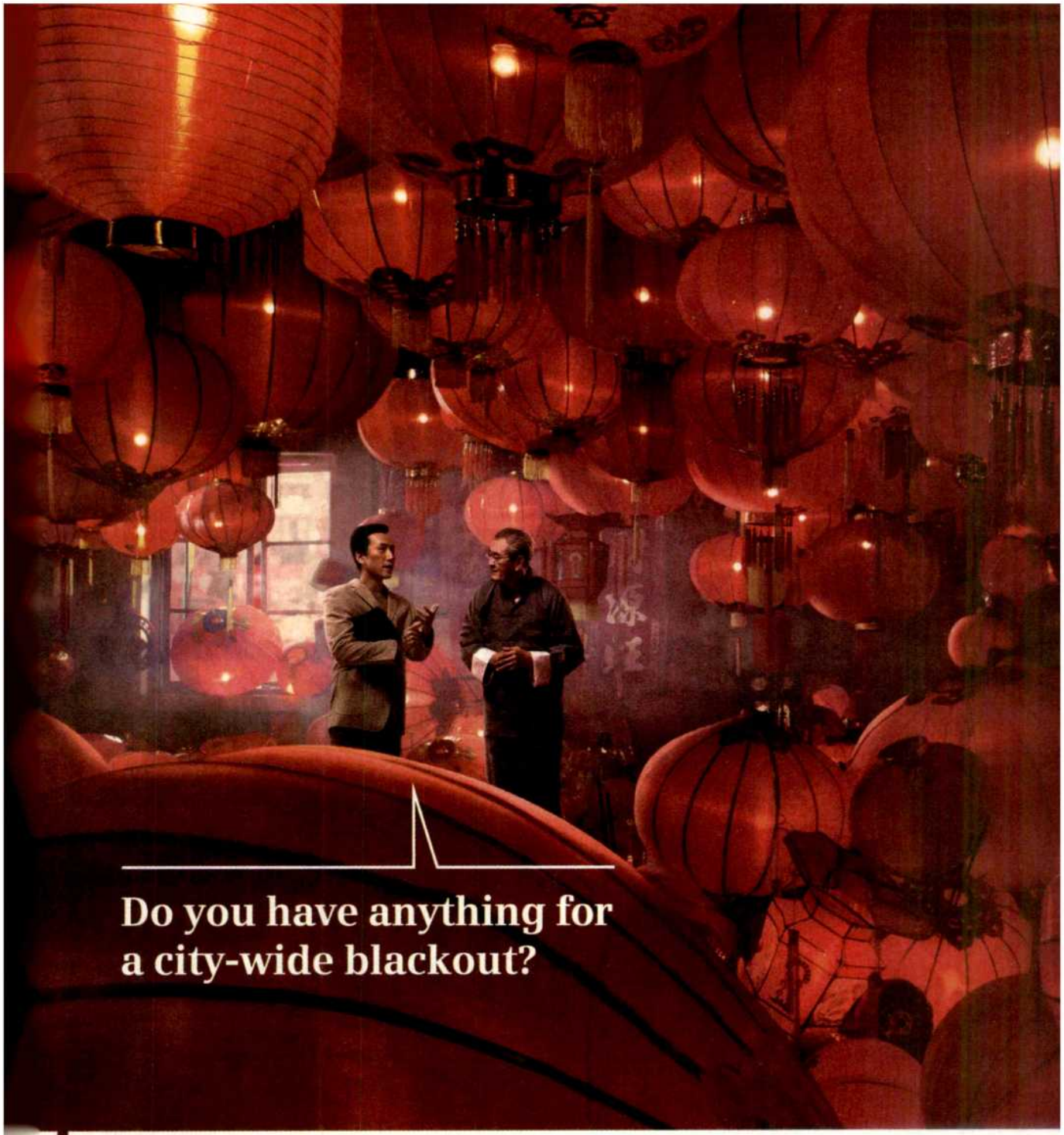

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Sustaining Sustainability

by P. Hari in San Francisco

THE renewable energy industry is built on dreams. One of the fondest of these dreams is to produce a renewable hydrocarbon fuel, so that we can continue driving our cars without feeling any guilt. It is a dream that fuels several hundred companies globally, a large number of them in the US. Industry observers consider Sapphire Energy, a 2007 start-up based in San Diego in California, as one of the hottest of these biofuel companies. Sapphire has apparently developed a process to produce hydrocarbons — petrol, diesel and aviation fuel — directly from algae using sunlight, and they are chemically identical to those derived from crude oil. Sapphire says it is a few critical steps away from supplying the fuel to petrol stations.

In the past 18 months of its existence, Sapphire has supposedly proven the technology and supplied fuel for a few biofuel-based experiments, including test flights by Continental Airlines and Japan Airlines. The next few years would determine if this process would work on a commercial scale. Sapphire's goal is to start producing 300 barrels per day (bpd) in three years, and 10,000 bpd in five years. "Once we demonstrate the process and economics work in 10,000 bpd, ramping up to hundreds of thousands or more of barrels per day is simply a matter of investment," says Tim Zenk, Sapphire's vice-president of corporate affairs.

With VCs furiously pumping in billions, alternatives to fossil fuel seem more plausible

We do not know yet whether it would work on a global scale, but several high-profile investors are backing the company — ARCH Venture Partners, the Wellcome Trust, Venrock and Bill Gates's Cascade Investment. But then Sapphire has stiff competition from dozens of other VC-backed companies, also chasing much the same dream. Companies that claim similar results — with different approaches — include Solix Biofuels in Colorado, Solazyme in San Francisco and Synthetic Genomics in Sausalito in California. Florida-based PetroAlgae says it

A Long Journey

The search for clean fuel alternatives started

1876 WILLIAM ADAMS discovers that Selenium produces electricity when exposed to sunlight

1908 FORD makes a vehicle that can run on ethanol

1954 BELL LABS develops the first photovoltaic cell

1973 The SATELLITE SKYLAB is powered by solar cells

1977 BRAZILIAN SCIENTISTS invent and patent the first industrial process for biodiesel

1978 THE US CONGRESS passes the Energy Tax Act, encourages households to invest in energy conservation, wind and solar energies

1979 A firm called ARCO SOLAR embarks on a venture to create the world's biggest photovoltaic manufacturing facility; Ethanol starts becoming popular

BLOOMBERG

UNCLOGGING THE PIPE: The high environmental cost of fossil fuels such as oil is leading companies to invest in cleaner options

is close to completing a 5,000 gallon-per-acre plant to produce hydrocarbon fuel using algae. There are also many other firms trying to produce other environment-friendly fuels — the label is essential — such as ethanol from biomass.

In the past one year, VCs in the US have been pouring money into biofuel firms. *Biofuels Digest*, a US publication that tracks investments in the sector, says that $680.2 million (about Rs 3,537 crore) of venture capital was invested in biofuel firms last year. Of this, $437 million was for cellulosic ethanol and $175.9 million for algae-based firms. That is a pittance compared to what is spent on searching for new oilfields to exploit, but a huge jump over the kind of funding biofuel start-ups could hope to attract five years ago. Still biofuel is only the second-most favourite area of renewable energy VCs. Their top choice is without doubt solar energy. In the past four years, VCs in the US invested $4.5 billion in solar energy start-ups.

VC investments in renewable energy continued throughout 2008 despite weak general economic conditions. According to the Cleantech Group, a research firm in San Francisco, $8.4 billion was invested in renewable energy globally in 2008. Greentech Media, a similar organisation, also based in San Francisco, puts the figure at $7.7 billion, but without including many deals in India and China. Solar energy firms mopped up $1.7 billion of VC money last year, and $4.5 billion in the past four years. A large number of these deals were at seed-stage, or Series A, funding. The money pumped into clean tech firms has resulted in a tremendous spurt in innovation. But industry watchers are worried that if the recession continues, the money might slow down — and the momentum of innovation would also slow down. Says Brian Fan, senior director of research at the Cleantech Group, "The overall funding will slow down this year, and we expect as much as 50 per cent valuations to be reset."

However, early-stage funding could be different. Early-stage VC deals — in all sectors — are still continuing, according to the MoneyTree report from PricewaterhouseCoopers. The number of VC deals dropped in the last quarter of 2008,

more than a century ago

1985 THE UNIVERSITY of New South Wales creates solar cells with 20 per cent efficiency

1999 INSTALLED CAPACITY of solar cells cross 1 gigawatt

2005 VCs begin funding renewable energy companies in large numbers

2006 BOEING-SPECTROLAB develops solar cells with 40 per cent efficiency

but the number of seed and early-stage deals were larger than in any quarter between 2002 and 2006. Even during a recession, VCs are keen to fund innovative ideas. However, highly capital intensive late-stage deals may be a different matter. From among the thousand-odd clean tech start-ups funded in the past few years, only those with breakthrough technologies will get the investments necessary for commercial scale plants. "Real innovation always gets funded," says Wilber James, managing partner of Rockport Capital Partners. Many corporate giants started during recessions. Would some of the companies funded in the past three years turn out to be the next Chevron or Shell or GE?

Redefining The Solar Energy Map

There seems to be an inevitability to the solar energy industry that attracts entrepreneurs, investors and innovators. Selling solar energy modules and panels is in real danger of becoming a commodity business, but that does not prevent entrepreneurs and VCs from looking for innovation in a solar energy firm. One of the largest fund-raising ever in the sector was done by the Fremont-based Solyndra. It raised $600 million in its four years of existence. Solyndra has a plant that makes 120 megawatts of solar panels, and another one being built to make another 500 megawatts. It claims to have $1.2 billion worth of orders already.

Innovation in solar cells often focuses on science: to produce more efficient or cheaper solar cells. Solyndra relies on pure engineering to improve efficiencies of the system and reduce cost. All conventional solar modules are flat and mounted in flat panels. Solyndra's module is cylindrical. This simple idea combined with some innovation has purportedly increased the efficiency of solar panels by roughly 25 per cent.

A flat panel, to be always perpendicular to the sun's rays, has to keep tracking the sun, and thus has to change orientation. Solyndra's way of tackling this is to make the modules cylindrical. These modules are designed in a way to capture light from all sides. Direct light from one side, diffused light from the other side, and reflected light from the bottom. The hollow cylindrical modules also allow wind to pass through them without damage. Solyndra's panel is apparently tested for winds up to 120 miles per hour.

Solyndra and other solar panel firms are betting on one thing: commercial rooftop space across the world. In the US alone, there is 30 billion sq. ft of space available, which can translate into 150 gigawatts of power if fully used. The space available globally is probably three times as much. "We need to optimise the cost for commercial rooftops," says Kelly Truman, vice-president of marketing in Solyndra.

As all observers of the industry know, the main problem with solar power is the high cost. Making more efficient solar cells is one way of tackling this problem. The other one is to drive efficiencies into the manufacturing process — and to develop low-cost materials — so that the total cost of the system comes down. Among established players, SunPower is an example of the first

For A Cleaner World

Solar energy continues to be the favourite of VCs when it comes to renewable energy

■ **Main solar energy technologies**

Technology	Companies	Advantages	Disadvantages	Industry status
Crystalline silicon	Sunpower, Mitsubishi, Suniva	High efficiency	High cost	Achieving grid parity in some markets
Thin film	Global Solar, Nanosolar, Solyndra	Low cost	Low efficiency	Rapidly gaining market share
Solar concentrators	Bright Source, Zenith Solar	High efficiency	High cost	To be used in the US and Israel

■ **Primary technology contenders for biofuels**

Type of fuel	Companies	Advantages	Disadvantages	Status
Hydrocarbon from algae	Sapphire Energy, Solix Biofuels, PetroAlgae	Sustainable in the long term	High cost	Many projects show feasibility
Hydrogen from biomass	Virent Energy	Renewable in the long term	Cost and scale-ability unproven	Only few players in the market
Ethanol from biomass	Coskata, POET	Renewable in the long term	Low energy density of ethanol	A few companies show feasibility

■ **Other clean technologies**

Technology	Companies	Advantages	Disadvantages	Status
Enhanced geothermal systems	AltaRock Energy, Potter Drilling	Renewable in the long term	Highly corrosive, induced seismicity	Technology demonstrated
High-altitude wind	Sky WindPower, Makani Power	Extremely low cost, renewable	Energy generation not steady	Systems unproven

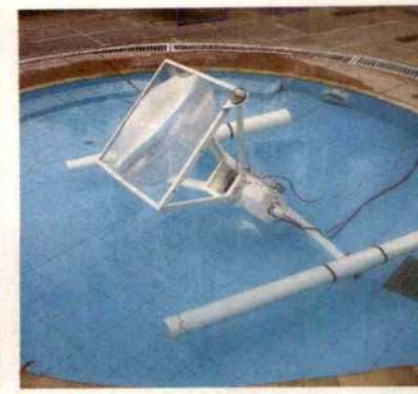
type of companies: for some time, it has been making the most efficient solar cells in the world. First Solar is an example of the second: its manufacturing techniques claim to make solar electricity cheaper than ever. Start-ups are challenging both sets of companies through multiple approaches and making a big impact on the solar energy map.

For example, the Oakland, California-based BrightSource is building the world's largest solar power plant in Mojave Desert near Los Angeles. Capable of producing 1.3 gigawatts of power when complete in 2013, this plant would use mirrors called heliostats to concentrate solar radiation, which in turn is used to generate steam to drive turbines and generate electricity. The company sources its technology from a subsidiary in Israel, where it is building a 100-megawatt and a 200-megawatt plant.

Concentrating the sun's rays is an approach followed by several firms around the world, and many of them are claiming efficiencies much higher than plain photovoltaic cells. In Israel, start-up Zenith Solar has licensed concentrator technology from the country's Ben-Gurion University and Fraunhofer Institute in Germany. The firm claims to increase efficiency five times while reducing the cost of photovoltaic cells from 80 per cent of the system to 10 per cent.

Prism Solar Technologies in New York uses holograms to concentrate solar energy, and reduces the amount of silicon needed in a panel and, thus, the cost. In Australia, Sunengy uses concentrators to focus solar energy on to solar cells partially submerged in water. Water keeps the system cool and protects it from high winds. Research papers published from Sunengy claim that costs can go to less than $1 a watt (currently solar electricity costs roughly $2 a watt). Says Philip Connor, inventor of the system and founder of Sunengy, "We need to achieve 50 per cent cost reductions in two years, 75 per cent in four, and coal replacement soon thereafter."

Companies described above represent a fraction of the innovation happening in this field. Nanosolar in the Silicon Valley literally prints solar cells on a substrate, which supposedly speeds up manufacturing by about 100 times; Nanosolar has received $500 million in VC funding. A start-up from MIT, 1366, is using very thin wires to reduce the cost of conventional silicon solar cells, and bring solar energy costs on a par with electricity from coal by 2012. And it is a sector that is attracting global corporate giants. Samsung, IBM and Intel are all nurturing plans to enter the solar energy market.



RAY OF HOPE: While companies such as Sapphire use algae to produce hydrocarbons (left), others use concentrators to tap solar energy

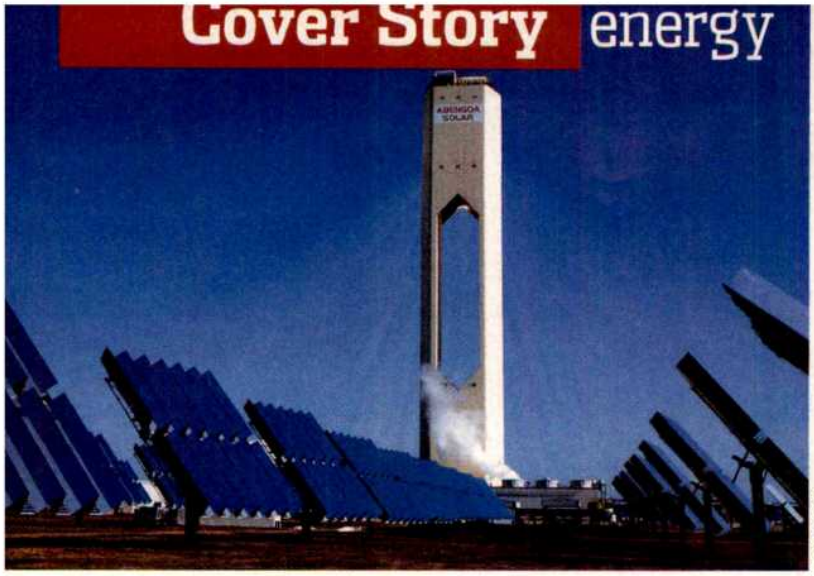
Not surprisingly, Lux Research predicts the solar energy market to increase its size from $36 billion (5.5 gigawatts) to $70 billion (18.5 gigawatt) by 2013, with a few bumps on the way in the next two years. Some industry observers compare the advent of low-cost solar cells — at lower efficiencies — to the situation in the computer industry in the 1980s. "The current state of thin film technology is like the time when PCs made their appearance," says Keshav Prasad, vice-president of business development at Signet Solar, a Silicon Valley firm. "PCs were much slower than the mainframes, but they caught on because they were much cheaper."

Playing Catch-up

While the solar energy industry seems to be on the verge of explosive growth, the biofuel industry seems set to catch up a few years later. For some time now, biomass energy, with ethanol from corn being the front-runner, has been criticised as not being so environment-friendly. In fact, studies had shown that corn-based ethanol creates more carbon emissions than fossil fuels in the long run. This is because of fertiliser use and land degradation, among other factors. Now, a Chicago-based company claims to put biomass-based ethanol as a top contender among carbon-neutral fuels.

It is difficult to manufacture ethanol economically with a low overall carbon footprint. One way to make ethanol economically is to learn how to convert any piece of biomass into a fuel, which obviates the need to use fertilisers or use areas meant for crops to generate the feedstock. There are several such research projects by firms, but Coskata is among the few that have processes that can use a variety of inputs. Its ethanol plants can take in any feedstock: scraps of wood, any twigs or leaves, old tyres or almost anything that has organic carbon in it.

The firm has proprietary microorganisms that can eat up carbon-based material and convert it finally to ethanol. But ethanol is not as energy dense compared to fossil fuels. "We can compensate for this lower density through lower prices for ethanol," says Wes Bolson, chief



BLOOMBERG

GAINING HEIGHTS: Companies are driving efficiencies into manufacturing of solar panels to tackle the problem of high costs

marketing officer of Coskata. The company will be ready with a semi-scale plant by June, and is also designing a full-scale plant.

Biofuel firms have received a lot of investment, but many industry observers think that the sector has thrived on hype as well. Consider algae-based hydrocarbons, for example. There is no doubt that firms such as Sapphire, Synthetic Genomics and others are innovative. But their technology is still untested on a commercial scale. "No one has been able to scale algae-based methods," says Eric Wesoff, senior analyst at Greentech Media. There is the additional issue of land area necessary to manufacture these fuels. However, recent studies have shown that biofuels are sustainable on a global scale. In a paper published two months ago, scientists Jürgen Metzger of University of Oldenburg and Aloys Huettermann from Germany's University of Goettingen, showed that the world demand of energy by 2030 — based on projections by the International Energy Agency — can be met by cellulosic biomass grown in degraded land.

The economical viability of biofuels is difficult to calculate as the price of oil keeps fluctuating. Sapphire, for example, claims to make its bio-crude compete with oil when at prices of $60-80 per barrel (not considering subsidies). The price of crude is currently around $47 a barrel. So at current prices, bio-crude cannot compare with traditional crude. On the other hand, if crude oil prices are consistently over $100 a barrel, bio-crude suddenly becomes a very viable option. Observers cite the instability in the oil market as the major reason why renewable energy investments do not make economic sense (electricity prices, although different in different markets, are not so volatile). However, in spite of this volatility, biofuel companies have developed an impressive range of lab-scale technologies.

Several firms are developing technologies for biomass ethanol. POET, a grain-based ethanol firm in South Dakota, US, is building a 25-million gallon biomass ethanol plant in Iowa, to be ready in two years. Range Fuels, a Colorado-based firm backed by Khosla Ventures, will finish building its cellulosic ethanol plant in Georgia, US, by the end of this year. Sekab in Sweden is also close to commercialising cellulosic ethanol. As mentioned, Sapphire, Solis and Solazyme are developing renewable crude.

Seambiotic, whose parent company is in Israel, uses flue gas from coal power plants to grow algae, which in turn is used to produce biodiesel. The California-based Amyris Biotechnoloiges tries to reprogram the DNA of microbes to make renewable diesel and jet fuel. In a few years' time, we may know if these processes succeed, or whether one of these companies can become an energy industry giant.

The Buck Doesn't Stop Here

Solar Energy and biofuels have got the attention of VCs in the past few years, but there are a few other promising technologies too. Wind power and geothermal energy are no longer the hot favourites of VCs. There are, however, technologies within these areas that look promising. One is the enhanced geothermal systems (EGS), where water is pumped into cracks in rocks and taken out at high temperature. A report from MIT last year concluded that there is enough geothermal energy that can serve the earth's energy needs for several thousand years, with the only long-term drawback being non-hazardous induced seismicity.

The largest EGS system being developed is in South Australia, which can one day generate 10,000 megawatts of electricity. EGS technology is, however, still inchoate and expensive. Google.org has funded two companies in this area: Potter Drilling and AltaRock Energy. Both are in early stages. Says Gregory Miller, managing director of investments at Google.org, "We deliberately choose areas that are not getting enough attention from VCs."

High-altitude wind is another area with high potential. A demonstration project in Delft University in the Netherlands has shown feasibility by flying kites at high altitudes. Makani Power in California, in which Google.org has invested $15 million, is developing the technology to fly kites at altitudes between 800 metres and 10 km, and attach them to gensets. A medium-sized kite farm can generate 100 megawatts of energy. Like EGS, this is a technology that will serve the world in the long term. The seeds for both have already been sown.

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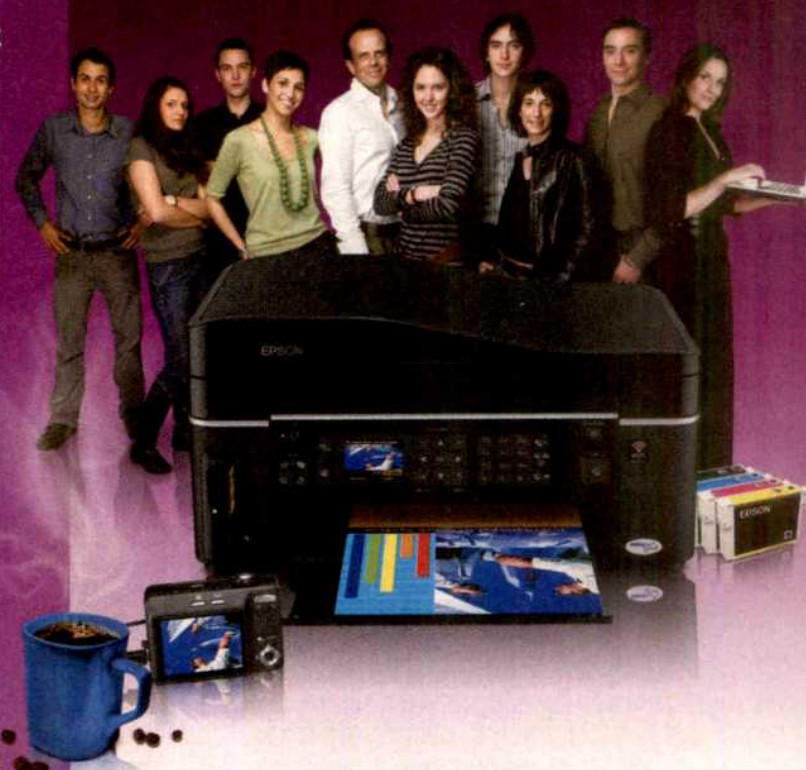

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Near-Zero Gravity

by Raghu Mohan

The deposit rates are unresponsive to changes in policy rates

EVERY TIME THE RESERVE BANK OF INDIA (RBI) decides to cut key rates, the media goes into a feeding frenzy. Headlines highlight cheaper consumer and home loans for the *aam aadmi* and finer pricing for corporate borrowers. The truth is that despite repeated cuts in policy rates and the cash reserve ratio (CRR) to increase liquidity, prime borrowers still have to pay at least 11.25-12 per cent per annum.

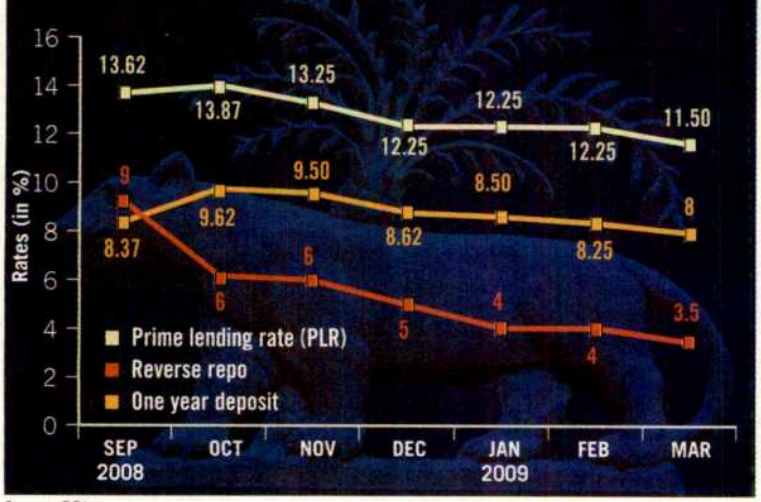
The problem, says Madan Sabnavis, economist at the Mumbai-based Multi-Commodity Derivatives Exchange (MCDEX), lies at the fountainhead of the source of funds — bank deposits. "There has been a distinct slowdown in deposit growth in the first 10 months of this year," he explains. "Deposits have grown by Rs 4,71,000 crore, compared to Rs 4,80,000 crore for the same period last year." That implies banks perforce have to keep deposit rates attractive; and if they lowered lending rates, their spreads get squeezed.

After the latest round of rate cuts, Ashok Chawla, the economic affairs secretary, noted that the Ministry of Finance had observed that while state-run banks have gone ahead and cut interest rates, private banks have been rigid on this front. "Private banks have their own business models... [but] sooner or later, the rate cuts will move to the private sector banks too," he says. But can that happen while deposit rates stay high? What explains the stickiness of bank deposit rates?

One- to three-year bank deposit rates hover at about 8-9 per cent for state-run banks, down from 9.50-10.50 per cent in early 2008. While private and foreign banks also raise deposits at similar rates, at the industry level, nearly 75 per cent of deposits — and loans — are accounted for by state-run banks.

Liquid Signals

The Reserve Bank of India has repeatedly cut policy rates in the past six months to infuse liquidity into the market



Source: RBI

Hopes And Prayers

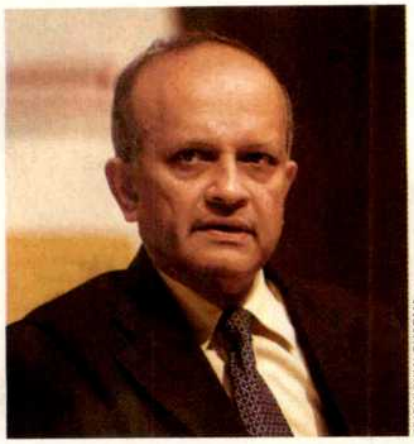
Interest rates on deposits are also related to those offered on postal savings and other small savings schemes, and on the rate of return on the Employment Provident Fund; bank deposits have to compete with them and keep rates high enough so that there are no big shifts towards those schemes.

The RBI is seized of the matter. In his January monetary policy review, Governor D. Subbarao offered reasons for the stickiness in deposit rates. Apart from administered interest rates, he pointed out that a large chunk of bank deposits is mobilised through fixed deposits. When rates move up, depositors can prematurely terminate existing deposits and re-deposit the funds at the higher interest rates. But when interest rates are headed down, banks have to bear the higher cost of deposits.

On its part, the RBI is hoping that banks will go ahead and lower rates. "It is clear that the RBI's number one priority is to ensure that the private sector gets the benefits of policy rate reductions," says Singapore-based Robert Prior-Wandesforde, senior Asian economist at Hongkong and Shanghai Banking Corporation (HSBC). Plenty of moral suasion is being used here; the central bank ends its press release by stating "it is expected that the reduction in the policy interest rates will further encourage banks to provide credit for productive purposes at viable interest rates".

The RBI says that since its end-January policy meeting (when policy rates were left unchanged), 11 banks have cut their prime lending rates ranging from 25 basis points (bps) to 125 bps, with several banks also lowering their deposit interest rates. Wandesforde notes that the cost of borrowing from banks is coming down, "but 'customer-facing' interest rates can't yet be described as being that stimulative".

In the case of the bigger state-run banks, about 35-40 per cent of deposits are accounted


TRIBHUWAN SHARMA

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SATHEESH NAIR

TIGHT SITUATION: (from left) Axis Bank's P.J. Nayak, SBI's O.P. Bhatt and ICICI Bank's Chanda Kochhar. While state-run banks have been responsive, most private banks have been rigid on paring rates

for by current and savings accounts (CASA) deposits. The greater the proportion of CASA deposits, the lower a bank's overall cost of funds, since banks do not pay interest on current accounts, and only 3.5 per cent on savings deposits.

What Holds Them

It is the larger wholesale deposits — from corporate and high net worth individuals — that push up cost. Then, there are certificates of deposits (CDs), another wholesale source. The RBI February Bulletin shows that for the fortnight ended 19 December 2008, banks held an outstanding amount of Rs 1,51,214 crore through CDs, up from the Rs 1,49,986 crore in December 2007. Outstanding CDs in December 2008 were priced at a good 100 bps higher than the CD rates that prevailed a year earlier.

"While deposit rates — retail — and CD rates have softened, most overlook the fact that banks were raising one-year money as high as 12 per cent during the months of October-September 2008 when liquidity turned tight and call money rates (the rate at which banks borrow and lend among themselves) shot up to over 20 per cent levels," says Harihar Krishnamurthy, country treasurer at Development Credit Bank in Mumbai. "The costs of those deposits are still being borne by banks." It will be sometime before banks are able to price loans much lower; that will happen only as the corpus of incremental deposits now being raised at lower rates goes up.

The reduction in policy rates have been substantial, with the repo rate (which banks borrow from RBI) coming down by 350 bps. And, liquidity has been ample ever since RBI reduced CRR, spread out the government borrowing programme and reversed the MSS bonds. Banks were not greatly affected by these rates in terms of cost of funds. Besides, these rare overnight rates: banks need cheap long-term funds, which have been hard to come by because of competition from other parts of the financial services industry such as insurance companies.

The competition for deposits for meeting the higher credit demand is expected to lead to an upswing in the cost of funds. In 2009-10, the net government borrowing has been pegged at Rs 3,08,647 crore, up from the Rs 2,61,972 crore for 2008-09. Add on the cost of reserves (cash reserve and statutory liquidity) and the mandated concessional lending (as a result of which banks tend to price loans higher for commercial borrowers to make up for earnings) — there is just no way that banks can go all out and lend cheap as is expected.

Then, there is asset-liability management (ALM). Banks are progressively lending more for investment and less for working capital (which happens when there is a slowdown); which means that in order to meet ALM rules, they have to go for long-term deposits, at higher rates. Most banks still offer high rates on the three- to five-year range in order to match the tenure of their assets.

If deposit rates remain sticky, a number of other problems can surface. One, it will automatically get translated into rigid lending rates. Two, as the economy falters and industrial growth slows further, the risk premium on loans increases. Even while one still expects the RBI to lower rates in future, banks may not cut interest rates on both deposits or loans.

"I personally think that we are past the era when the RBI can actually talk interest rates down as banks are more concerned about their profitability and meeting the Basle II norms in which bad loan recognition and capital are key concerns," says Sabnavis. Much as North Block — the finance ministry — would like to see banks drop rates quickly, there's some more work waiting to be done.

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Structural Bottlenecks

by Kandula Subramaniam

Stimulus package plans are caught in Centre-state bickerings

KEYNESIAN THEORY SAYS THAT GOVERNMENT spending, especially in infrastructure, is one way to get out of a severe economic downturn. The UPA government embraced this theory to counter global recession and a slowing domestic economy. The logic is simple: spending on infrastructure projects such as road construction, power, ports and urban infrastructure would trigger economic activity in other sectors and provide employment.

While the 'trigger' for this spending was the stimulus packages announced a couple of months ago, the real bottlenecks for the infrastructure takeoff rest elsewhere, and the stimulus packages can do little to reverse this trend. In November 2008, Prime Minister Manmohan Singh chaired a series of meetings with officials from the Centre and the Reserve Bank of India (RBI) to chart a path to weather the global economic crisis. The meetings resulted in two stimulus packages — one was announced on 7 December 2008 and the other on 2 January this year. As part of the stimulus packages, the government increased plan expenditure by Rs 20,000 crore to propel 'rural infrastructure' as well as increase funding for social security schemes such as the National Rural Employment Guarantee Scheme (NREGS). Simultaneously, the RBI also took monetary steps in the form of rate cuts.

The packages also detailed fiscal and administrative steps to kick-start infrastructure development — be it in roads, urban infrastructure, power, housing or irrigation. The fiscal steps include cutting of duties, while monetary steps constituted easing of external commercial borrowing (ECB) guidelines as well as opening of a refinance window with India Infrastructure Finance Company (IIFCL). It was announced that this will support "a PPP (public private partnership) programme of Rs 1,00,000 crore in the highways sector".

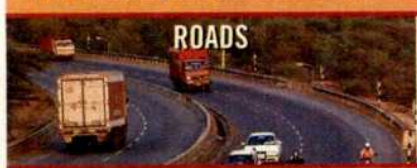
Reality Bites

In mid-January, the PM put in place a mechanism under which the cabinet secretary would regularly coordinate with states to ensure that the initiatives taken under the packages are implemented at the state level. About 91 per cent of the enhanced spending (over Rs 25,000 crore in all schemes including those identified under the stimulus package) under the rural development ministry has already been allocated to states.

But has this resulted in increased spending on infrastructure at the ground level? A quick check on ground realities reveals that there are several issues at the state level that have held back the big boost in infrastructure spending

Cause For Concern

There are many micro-level issues that the government needs to address before it can expect any improvement on the infrastructure front



Ground-level issues	NATIONAL HIGHWAYS	RURAL ROADS		HOUSING FOR URBAN POOR UNDER JNNURM	HOUSING UNDER RURAL DEVELOPMENT SCHEME (IAY)	NREGS
	Land acquisition; forest clearance; shifting of utilities	Lack of participation from large construction companies	Land acquisition; forest clearance; law and order in some states	Lack of availability of land for poor in Bihar, Punjab and Jharkhand	Providing technical knowledge to ensure disaster-resistant houses	Inadequate social mobilisation; lack of dedicated staff for NREGS
	Non-payment of toll in states such as Orissa	Lack of effective contract management	Right of way constraints for construction of transmission lines	Lack of capacity at local level; slow implementation of projects	Finalising IAY waitlists and reduce 'rent seeking' in selection of beneficiaries	Lack of speedy transfer of funds from district to panchayats
	Shifiting of structures of religious importance	Ensuring land availability before project clearance	Non-allocation of water by some states	Lack of a state-level policy to house migrant urban poor, like in Goa	Saturate housing need of Naxal-affected districts and primitive tribal groups	Lack of NREGS cells in states; need for initiatives to mobilise workers

JNNURM: Jawaharlal Nehru National Urban Renewal Mission; IAY:Indira Awas Yojna; NREGS : National Rural Employment Guarantee Scheme

Source: Government of India

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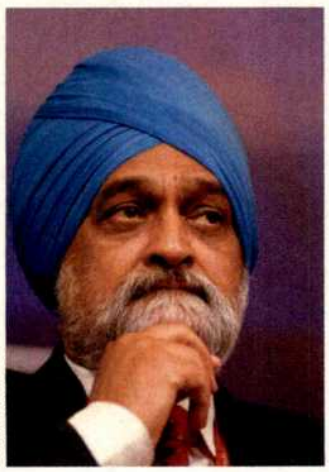
over the past few years. And even the series of steps taken by the government through stimulus packages can do little to reverse this trend.

Take national highway construction. According to official records, the major reasons behind incomplete projects are: non-availability of land, difficulty in shifting utilities and religious sites as well as delays in forest clearances. Official documents of many states have thrown up at least 45-50 instances where these factors have hampered ongoing projects.

In Uttar Pradesh, for instance, national highway projects have been stalled for the past four years because the state government has not allowed trees to be cut for highway construction and has insisted that National Highway Authority of India (NHAI) provides a 10-metre strip of land along the highway to plant trees. But, according to NHAI, "this condition has not been imposed by any other state and is difficult to fulfil in practical terms".



BIVASH BANERJEE

IS IT WORKING? The stimulus package announced by Planning Commission's Montek Singh Ahluwalia is unlikely to trigger an infrastructure boost

In yet another instance, construction of rail over bridges (RoBs) has been held up because of the inability to resolve toll issues. ROBs fall within the domain of railways and the state government. As a result, over 2,000 such bridges are yet to be constructed while the annual construction pace of railways is a paltry 25-30, say Planning Commission officials. There is now a proposal to readjust the cost-sharing ratio of such bridges from the existing 50:50 (between railways and state) to 80:20.

The additional funds from the stimulus packages might make a difference in such cases, but it is worth noting that between end of 2007 and end of 2008, NHAI did not award any new road contract because of differences with firms on qualification norms. As many as 60 projects totalling an investment of over Rs 60,000 crore were held up. And when the issue was resolved, the financial crisis started taking effect and banks became risk averse. That is why M. Murali, director-general of National Highways Builders Federation (NHBF), describes the stimulus package as "too little, too late".

Even though the PM, in his letters to chief ministers in January, said public sector banks are being "encouraged to avoid excessive risk aversion", Murali told *BW* that banks are now scrutinising projects more carefully and believes that not more than nine projects can achieve financial closure.

It is not just national highways. Even rural roads programme in many states are stalled because of inadequate land acquisition and inefficient programme implementation.

Power Woes

In power projects too, implementation is delayed because of issues such as land acquisition, forest clearances and non-allocation of water. Besides, states have raised some specific issues that would delay implementation of schemes such as the Accelerated Power Development And Reform Programme (APDRP), a programme that offers subsidised funds to states for undertaking utility works.

Under the revised APDRP, states such as Gujarat and Andhra Pradesh want the Centre to reduce the loss reduction target (while APDRP scheme requires states with aggregate technical and commercial (AT&C) losses above 30 per cent to reduce losses by 3 per cent each year, while those below 30 per cent would need to reduce by 1.5 per cent each year). Being a central government scheme, the Centre has not changed its stance on the targets and insists that this is a Cabinet decision. For states on the other hand, as losses get lowered, the incremental reduction in losses gets that much tougher.

Long Haul

Since 31 January the cabinet secretary held four meetings with officials from states. Committees have already been formed to fast track land acquisition and even provide other clearances. However, new issues are bound to come up while implementing the stimulus packages.

Take the NREGS that guarantees some minimum wages for works undertaken to build small water reservoirs in villages or even laying small village roads. Since this involves construction work (40 per cent of the NREGS funds go towards material and 60 per cent towards wages), this scheme has witnessed the largest increase in plan funds (Rs 14,000 crore between budget estimates of 2008-09 and revised estimates of 2008-09).

Arvind Mayaram, financial advisor in the rural development ministry, points to a potential problem — he explains that NREGS is a demand-driven scheme and that there are a large number of people that have been laid off due to the economic downturn. He said these people, in turn, are looking for jobs in their native villages. Here, he said, one is not sure whether there is a "credible shelf of projects to employ this surplus manpower under the NREGS scheme".

So has the UPA offered too little, too late? Administrative bottlenecks, it seems, may have already trounced all good intentions behind the central schemes.

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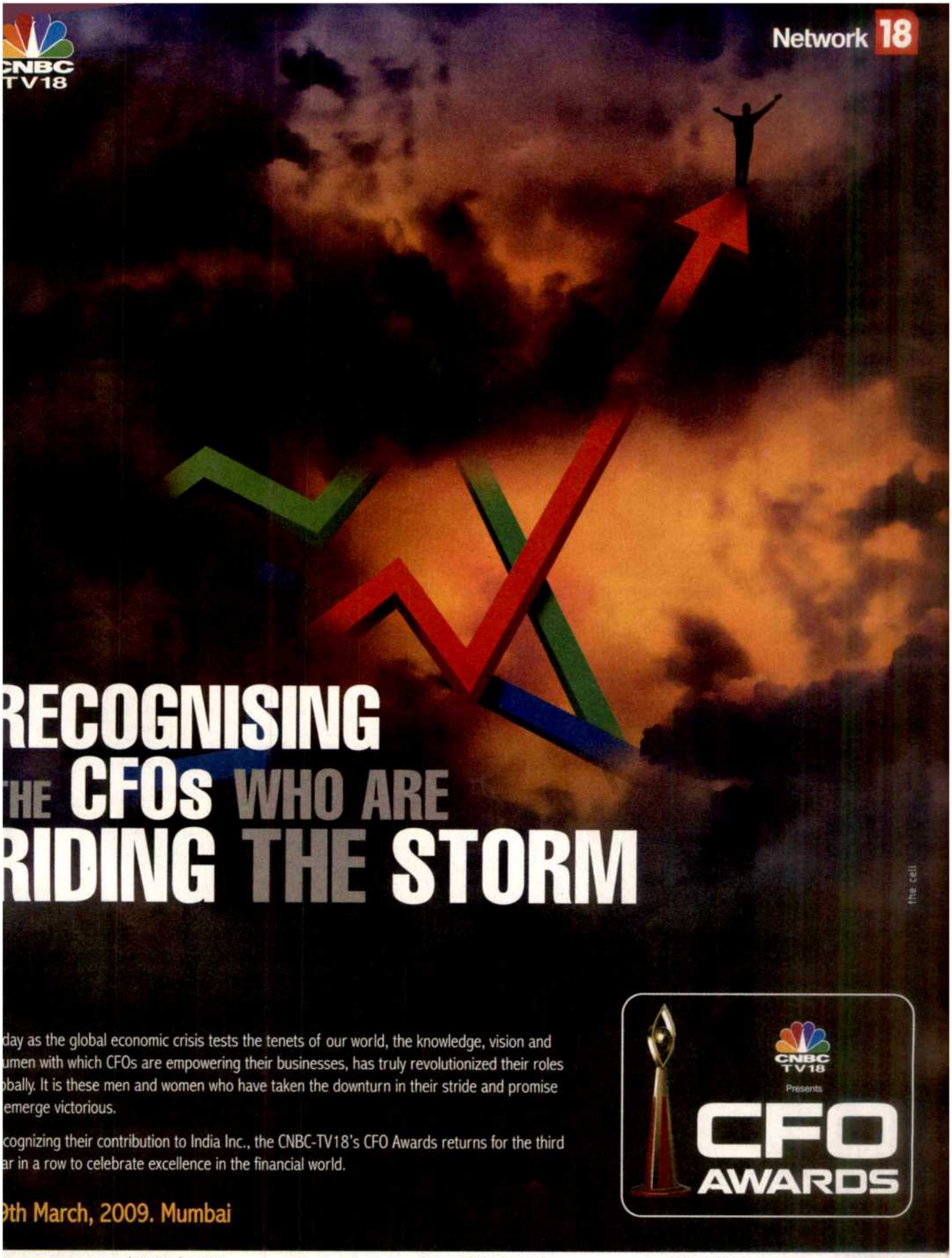
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Calling For Innovation

by Rajesh Gajra

Change in regulations can boost derivatives trading at NSE

A FALLING STOCKMARKET CAN HAVE A POSITIVE side to it too. Traders, including individual investors, have increased participation in a segment of the derivatives market that until recently was insignificant: index options. But the absence of a bouquet of products compared to other international derivatives markets has limited its scope. Currently, the equity derivatives market is the only financial market in the country where there is enough regulatory scope to enhance innovativeness in the products offered to the market players and investors.

Since February 2008, the share of trading in index options, predominantly options on S&P CNX Nifty 50 index (Nifty), has risen about four times. Interestingly, this has come about at the cost of the Indian speculator's favourite: futures in individual stocks, where the traded value has more than halved (see 'Emerging Trend').

The downward movement in stock futures has shifted traders' attention to options contracts, which are less risky than naked futures if one is buying a put or a call option. "Since a year when equity markets have been on a slide, traders have found that it is difficult to gauge the market movement, and find themselves quickly out of the game," says Gurudatta Dhanokar, head strategist of derivatives at Almondz Global Securities. "So, they have preferred to dabble in buying options, particularly index options, where they know their maximum losses upfront."

In options trading, the price paid is the market-determined premium. If one buys a call option on Nifty that has a strike price of 2,500, one pays just the premium amount (say 25). If the Nifty goes down by over 25 points the call option buyer's loss will still be restricted to the 25 premium as he cannot exercise his loss-making option on expiry.

Index options contracts are also the most active equity derivatives contracts the world over. Eurex, Euronext Liffe, Korea Exchange, Australian ASX Derivatives Exchange, Hong Kong Exchanges, Borsa Italiana and Brazilian Bovespa are among the largest equity derivatives exchanges. Their combined notional turnover in 2008 (till November), according to the World Federation of Exchanges, in index

COMING OF AGE? Aligning its derivatives trading with international standards will help NSE stay competitive

SUBHABRATA DAS

16% Rise in Turnover for the Quarter without FERV impact

5% Rise in Profit After Tax for the Quarter without FERV impact

22% Rise in Profit After Tax for the nine months without FERV impact

UN-AUDITED RESULTS FOR THE QUARTER AND THE NINE MONTHS ENDED 31ST DECEMBER 2008

Rs. in Lacs

PARTICULARS	Quarter ended 31.12.2008 (Un-Audited)	Quarter ended 31.12.2007 (Un-Audited)	Nine Months ended 31.12.2008 (Un-Audited)	Nine Months ended 31.12.2007 (Un-Audited)	Financial Year ended 31.03.2008 (Audited)
1. Revenue from Operations					
Transmission Income - Other than FERV	116074	97820	343515	279024	411792
Transmission Income - FERV@	16741		66053	-	7060
a) Total Transmission Income	**134815**	**97820**	**409568**	**279024**	**418852**
b) Consultancy Income	5816	5993	13741	17144	25004
c) Telecom Income	4166	3082	11091	9291	12353
d) Short Term Open Access	1637	1986	4396	5298	7384
e) Lease Income - State Sector ULDC	1310	1013	3800	3582	6654
Total Revenue from Operations	**147744**	**109894**	**442596**	**314329**	**470247**
2. Expenditure					
I. a) Staff Cost	14527	11500	42512	31642	51906
b) Other O&M Expenditure (including DRE Written off)	11043	7548	28730	22828	35068
Total Expenditure other than Depreciation	**25570**	**19048**	**71242**	**54470**	**86974**
II. Depreciation	27961	24951	81285	70457	95965
Total Expenditure	**53531**	**43999**	**152527**	**124927**	**182939**
3. Profit from Operations before Other Income and Interest & Finance Charges	**94713**	**65895**	**290069**	**189402**	**287308**
4. Other Income					
a) Interest on Bonds & Long Term Advances	3216	3663	10082	11374	14999
b) Interest from Banks	3482	3834	9411	4707	7462
c) Dividend	-	-	1955	538	539
d) Provision Written Back	-	28	-	312	839
e) FERV Gain	-	-	-	-	4296
f) Others	1825	1058	5369	4020	9771
Total Other Income	**8523**	**8583**	**26817**	**20951**	**37906**
5. Profit before Interest & Finance Charges	**103236**	**74478**	**316886**	**210353**	**325214**
6. (I) Interest & Finance Charges					
a) Interest & Other Charges	37770	27308	109282	85606	119565
b) Rebate to Customers	2026	2111	6618	4614	6764
c) FERV as adjustment in Borrowing Cost@	12208	-1564	31406	-24953	7626
(II) FERV above Domestic Borrowing Cost @	8022		39357		
Total Interest & Other Charges	**60026**	**27855**	**186665**	**65267**	**133955**
7. Profit after interest but Before Tax and Prior Period Adjustments	**43210**	**46623**	**130221**	**145086**	**191259**
8. Less : Prior Period Items - FERV	44	-	5102	-	17929
Prior Period Items - Others	-565	-184	243	-24	278
9. Profit before tax	**43731**	**46807**	**124876**	**145110**	**173053**
10. Provision for Taxation					
a) Minimum Alternate Tax	4680	4861	13045	15006	19711
b) Fringe Benefit Tax	281	358	995	798	1050
c) Deferred Tax	1535	3160	3389	8536	7445
11. Profit after Tax	**37235**	**38428**	**107447**	**120768**	**144847**
12. Paid up Equity Share Capital	420884	420884	420884	420884	420884
13. Reserves excluding Revaluation Reserve	-	-	-	-	929853
14. (a) Basic EPS (*)	0.8847	0.9130	2.5529	3.0502	3.6019
(Rs./Share of Rs.10 each calculated on profit after Tax)					
14. (b) Diluted EPS (*)	0.8847	0.9130	2.5529	3.0488	3.6007
(Rs./Share of Rs.10 each calculated on profit after Tax)					
15. Public Shareholding					
- Number of shares	573932895	573932895	573932895	573932895	573932895
- Percentage of shareholding	13.64 %	13.64 %	13.64 %	13.64 %	13.64 %

@ Refer note no. 2 (ii), (iii) and (iv)

* EPS figures for the Quarter and Nine Months have not been Annualised

Segment wise Revenue, Results and Capital Employed

Rs. in Lacs

PARTICULARS	Quarter ended 31.12.2008 (Un-Audited)	Quarter ended 31.12.2007 (Un-Audited)	Nine Months ended 31.12.2008 (Un-Audited)	Nine Months ended 31.12.2007 (Un-Audited)	Year ended 31.03.2008 (Audited)
A. Segment Revenue including Other Income					
- Transmission	139542	104591	424986	294129	448030
- Consultancy	5896	6271	14304	17450	25329
- ULDC/RLDC	6845	4577	18998	14406	22408
- Telecom	4276	3097	11354	9435	12584
Total	**156559**	**118536**	**469642**	**335420**	**508351**
Less: Inter Segment Revenue	92	59	229	140	198
Total Revenue including Other Income	**156267**	**118477**	**469413**	**335280**	**508153**
B. Segment Results Profit Before Tax					
- Transmission	41927	42345	120646	130523	157810
- Consultancy	3492	4871	7501	12196	16093
- ULDC/RLDC	-1077	-76	-1280	2331	945
- Telecom	-611	-333	-1991	70	-1795
Total Profit Before Tax	**43731**	**46807**	**124876**	**145110**	**173053**
C. Segment Capital Employed					
- Transmission	3855042	3188560	3855042	3188560	3296410
- Consultancy	-84287	-58186	-84287	-58186	-58869
- ULDC/RLDC	131831	127444	131831	127444	123415
- Telecom	71051	67701	71051	67701	64468
Total Segment Capital Employed	**3973637**	**3325519**	**3973637**	**3325519**	**3427424**

Notes : While calculating segment wise capital employed, deferred tax liability for consultancy and other segments has not been considered and included in transmission segment.
Profit of Telecom segment has been increased by the amount of inter segment revenue with a corresponding decrease in profit of Transmission segment.

Notes. :

1. The transmission income included in Revenue from Operations for the period has been accounted for on the basis of regulations issued by CERC and orders received for the block period 2004-09.
2. (i) Without considering the impact of FERV, Net Profit after Tax for the quarter and nine months ended December, 2008 is Rs. 38768 lacs & Rs. 117261 lacs respectively against Rs. 36864 lacs & Rs. 95815 lacs respectively for the quarter and nine months ending December,2007. The increase of 5% for the quarter and 22% for the nine months is due to commissioning of Transmission assets of Rs. 4011 lacs in the current quarter and also the impact of commissioning of assets of Rs. 275358 lacs in the first six months of 2008-09 and Rs. 595819 lacs in the last year in various stages.

   (ii) Out of total FERV loss of Rs. 33773 lacs for the quarter and Rs. 152782 lacs for the nine months (Rs. 1059 lacs gain and Rs. 48668 lacs gain for the corresponding quarter and nine months of the previous year 2007-08), FERV loss of Rs. 20230 lacs for the quarter and Rs. 70765 lacs for the nine months (Rs. 1564 lacs gain and Rs. 24953 lacs gain for the corresponding quarter and nine months of the previous year 2007-08) has been charged to Profit & Loss Account and balance has been adjusted in the carrying cost of the related assets as per the provisions of the AS-11 and AS-16.

   (iii) **Out of the FERV loss of Rs. 20230 lacs for the quarter and Rs. 70765 lacs for the nine months** (Rs. 1564 lacs gain and Rs. 24953 lacs gain for the corresponding quarter and nine months of the previous year 2007-08) **charged to Profit & Loss Account,Rs. 18741 lacs for the quarter and Rs.66053 lacs for the nine months** (Nil for the corresponding quarter and nine months of the previous year 2007-08) **has been credited to Profit & Loss Account as 'Transmission Income-FERV' by depicting the same as recoverable (during the tenure of the loan as per CERC norms) in accordance with the opinion of Expert Advisory Committee of the Institute of Chartered Accountants of India.** The above accounting treatment has been followed from the quarters ended March, 2008 and June, 2008.

   (iv) **The above accounting has resulted in net loss of Rs. 1489 lacs for the quarter and Rs. 4712 lacs for the nine months on account of FERV** against FERV gain of Rs. 1564 lacs in the quarter and Rs. 24953 lacs in the nine months ended December, 07. **In addition, Rs. 44 lacs for the quarter and Rs. 5102 lacs for the nine months,** accounted for as FERV gain in 2007-08 in respect of construction projects, **has been depicted as payable to beneficiaries by charge to Profit & Loss account as prior period expenditure. nine months,** accounted for as FERV gain in 2007-08 in respect of construction projects, **has been depicted as payable to beneficiaries by charge to Profit & Loss account as prior period expenditure.**

3. A provision of Rs. 4171 lacs for the quarter and Rs. 9604 lacs for the nine months (net of amount charged to construction) has been made in the Profit and Loss Account on account of wage revision against Rs. 2251 lacs for the quarter and Rs. 6630 lacs for the nine months (net of amount charged to construction) of the previous year 2007-08.
4. During the period the company has provided depreciation at the rates notified for the purpose of recovery of tariff by Central Electricity Regulatory Commission empowered under The Electricity Act, 2003. The issue of charging depreciation has been referred by CAG to the Ministry of Power (MOP). MOP has issued tariff policy which provides that rates of depreciation notified by CERC would be applicable for the purpose of tariffs as well as accounting. Pending formalization of norms by CERC in accordance with the Tariff Policy, the rates notified under present Tariff Norms are considered appropriate for charging depreciation for the quarter.
5. As per the directions of MOP, the Board, in its meeting held on 12.07.2008, has decided to form a 100% subsidiary company for the RLDC/ULDC segment of the Company. The decision of the Board is under implementation.
6. (i) Status of investor complaints received and attended, regarding equity shares, during the quarter ended 31st December, 2008 is given as under:

	Opening Balance	Received*	Disposed	Closing Balance
No. of Complaints	14	177	191	0

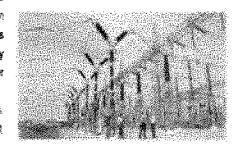
*Includes references and communications

(ii) As at 31st December, 2008 , no investor's complaint /grievance is lying un-resolved in respect of Bonds issued by the Company. Clarifications, as and when sought by any investor, have been furnished.

7. For the financial year 2008-09, Interim Dividend @ 5% on equity share capital was proposed and approved by the Board of Directors in its meeting held on 28.01.2009.
8. Out of the issue proceeds of FPO of Rs. 196576 lacs (net of Issue Expenses of Rs. 2367 lacs), the Company has utilised an amount of Rs. 139087 lacs as per the objects of the issue and the balance is kept in the banks as term deposits.
9. Previous Quarter/Nine months' Year figures have been regrouped / rearranged wherever necessary.
10. The above results have been reviewed by the Audit Committee and have been approved by the Board of Directors in its meeting held on 28.01.2009.
11. The above results have been reviewed by the Statutory Auditors as required under clause 41 of the listing agreements.

Sd/-
(S.K. Chaturvedi)
Chairman & Managing Director

Place : New Delhi
Date : 28.01.2009



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Emerging Trend

Trading volumes in Index futures/options contracts have overtaken that of stock futures/options in FY2009 compared to FY2008

	Index futures	Index options	Stock futures	Stock options
NSE derivatives traded value (April 2007 to March 2008)	38,20,667	13,62,111	75,48,563	3,59,137
NSE derivatives traded value (April 2008 to February 2009)	32,93,435	32,87,403	31,90,280	1,99,434

Figures in Rs crore; NSE: National Stock Exchange
Source: NSE

options was the highest at $42.9 trillion, followed by that in index futures at $13 trillion, in stock options at $3.4 trillion and in stock futures at $1.1 trillion.

Time To Move Forward

With Nifty options and futures turnover overtaking that of stocks derivatives, NSE should seriously think of aligning with world trends to keep the growth momentum going. NSE faces tough competition from Singapore Exchange (SGX) in Nifty futures (see 'Early Bird', *BW*, 5 January 2009). "Because of the October 2007 restrictions on foreign investors' participation through structured products on onshore Nifty futures and options, the market has moved to Singapore's dollar-denominated Nifty futures," says Vipul Dalal, country head of Mumbai-based Elara Securities, a subsidiary of London-based Elara Capital. Dalal points out that the turnover in SGX's Nifty futures contracts has grown multiple times in the past 17 months and is near to overtaking the onshore Nifty futures turnover.

BW learns from sources that NSE is ready to compete with SGX if given a level-playing field in terms of product design and removing restrictions on foreign participation. "Big banks and hedge funds build synthetic hedges around the US dollar-denominated SGX-listed Nifty futures and that business can come into India if regulations allow it," says Dalal. This can happen if Sebi moves fast on giving approvals to NSE's proposals.

GUIDING LIGHT: Fraser Cowie's Liffe is actively tapping OTC equity derivatives in the European markets

Tapping OTC Market

The demand for structured products demand also connects to trading volumes taking place in the wholesale market, or over-the-counter (OTC) market. Internationally, New York Mercantile Exchange (NYMEX) and NYSE Euronext Liffe are actively tapping the OTC equity derivatives market in the US and Europe, respectively. In 2004, Liffe realised that equity derivatives volumes in Europe were shifting away from the exchanges and estimated that about 80 per cent of it was happening through OTC market. In OTC market, the International Swaps and Derivatives Association had offered support to attract investment banks and funds to do derivatives OTC. "But we saw that as an opportunity to do the exact opposite — to get them on to exchange-traded platform," says Fraser Cowie, executive director of trans-Atlantic business development at London-headquartered Liffe division of NYSE Euronext.

In early 2005, Liffe introduced a single clearing platform, Bclear, for OTC trades in equity options spanning across 13 European markets. "Here, we don't match trades but you book the trade and get it reported and cleared through us," says Cowie. "The cost of processing is kept low." Cowie believes the exchange-traded platform and OTC platform have a positive effect on liquidity on each other, because of the increased visibility of OTC trades. The trading volume in OTC equity derivatives on Liffe was €783 billion (about Rs 52,24,900 crore) during the 14 month between January 2008 to February 2009 compared to the exchange-traded turnover of €2,357 billion.

The Liffe model can be replicated in India. "Wherever humanly possible, the derivatives trades should be exchange-traded, but where OTC trades occur, they should be routed through a central clearing counterparty," says Ajay Shah, senior fellow at the Delhi-based Institute of Public Policy and Research. "A clearing corporation will collect margins and ensure there is no mess if a Bear Stearns collapse-like scenario occurs," says Shah.

In equities, OTC trades scenario is only felt in terms of attracting the overseas OTC trades structured around a Nifty futures or a NSE/BSE-listed stock. For it to become a reality, Sebi will have to amend the Securities and Contract Regulation Act to allow derivatives trades to take place outside the exchanges.

Minor tinkering of existing products can help. Physical settlement of stock derivatives, instead of cash-settled contracts can help arbitrageurs and hedgers. The equity derivatives market is the only financial market in the country where the trading volume counts among the top 5-10 markets in the world. But to stay there, Sebi needs to broaden its regulatory framework for market-demanded products and features.

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Episode: The Indian hallmark of innovation in silver

Too many people miss the silver lining because they're expecting gold

- Maurice Setter

However, contrary to Maurice Setter's opinion, at Episode, the silver lining at the end of becoming a proud owner of an Episodian treasure, lies the golden experience of complete satisfaction.

India's premier silversmith, Episode (from the House of Whorras), enjoys the reputation of an honoured family lineage in sterling silver. Since its inception, in 1882, the House of Whorras has been accredited with establishing hallmarks in quality and design and therein nurturing a market friendly tenor for connoisseurs of the precious metal.

Episode has consistently enjoyed patronage from a clientele who have, over generations, remained wedded to the charisma of sterling. These include industry barons, corporate czars, eminent families and more recently, aspirational youth. Then there are the armed forces who get their trophies made from Episode for over 100 years or in designing trophies for prestigious events like the Business World Design Brilliance Award. The factors that have supported Episode's lead position is enunciated by Deepak Whorra, scion of India's leading sterling silver family, "The customer who buys his silver from Europe now has the option to buy the same quality from India To achieve this we have invested immensely in R & D with an emphasis on design and technology."

Episode, met and sustained the stringent benchmark of international giants such as Armani, Peter Jones, Ralph Lauren, Vera Wang, the reticent Italian silversmith Sabattani and Rolls Royce, Chivas Regal like demanding clients in the domestic arena – with their unique and exclusive silver ware designs. Realising the potential of the domestic Indian market, Episode elected to venture into domestic retail. With this initiative Episode moved into a new trajectory and today retails out of six outlets in India in Delhi, Gurgaon, Mumbai and Kolkata.

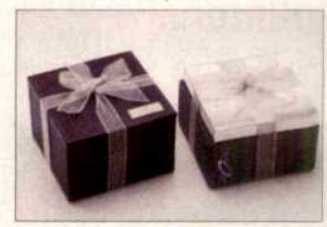
With an impressive array of over 10,000 products including an elegant and varied corporate range, religious deities, table accessories and breathtaking silver collectibles, Episode has products designed to suit all seasons of living including festivals, marriages and other happy occasions that enjoy a memorable emotion and have captured the myriad through their aesthetic and elegant creations that guarantee 92.5% sterling silver and high quality silver plated products.

The corporate edge to gifting is easily secured through the tasteful selection of Episode's impeccable designed table and office accessories, including the silver 'Om' shaped book mark, etched visiting card case, intricately crafted photo frames (on occasion with pen stands), boxes, bowls & dishes, executive table articles that would enhance the look and feel of one's office like pen stand, clock, memo pad holders, paper weights, key chains, rudraksha bells, wine goblets and almost a seamless more... A lot of thought is put into corporate gifting. From festive gifting like Ganesha, tea light holders, chocolate & candy bowls to mementos for conferences or articles for sales promotion tie-ups as in the case of the liquor industry (that is not allowed to advertise), Episode caters to a wide variety of corporate requirements. A corporate gift to dignitaries has so much more perceived value if it bears the Episode monogram or the easily recognizable Episode packaging.

Since a large section of the Episode repertoire comprises tableware and serveware, Episode ensures that food containers meet the ultimate international standards in safety parameters and therefore enjoy a confirmed, stylish elegance in a proud, traditional and contemporary home. An elegant presentation of porcelain and silver have emerged as a premium favorite, be it in dinner sets, tea sets or cups and saucers.

Graffiti was a successful Episodian effort born out of a unique experiment, to offer very contemporary, affordable designs in the silver plated medium. It places on offer, elegantly designed serving accessories, including bowls with glass inserts, candy dishes, chip 'n' dip, sets occasionally highlighted with Swarovski crystals and more.

Not one to be rest on its laurels, Episode is perpetually in the forefront of innovation. Recently they launched an exclusive range of silver clad glassware and silver clad porcelain using techniques developed in-house.



Continuing with its pursuit, of offering a valuable experience to its customers, Episode is poised to emerge as the undeniably most popular brand for those who have succumbed to the travails of maintaining silver. The principal concern of the silverware consumer remains 'tarnishing'. To address this, Episode is introducing a Tarnish Resistant Collection, which offers a seamless solution to the maintenance of silver. In an effort to address this, they offer universal relief to the aspirational silver owner, with this maintenance free option.

A tryst with the Episodian ethos assures a bridge that will endure through generations and identify an Episode product owner - as a true sophisticate.

For more on Episode visit : www.episodesilver.com

Promotion

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- Mumbai: 111, Asiad Plaza, S.V. Road, Santacruz (West), Mumbai - 400054 Ph: (022) 2648 8642
- Mumbai: S. R. Artefacts Pvt. Ltd. 3, Shiv Smriti Chambers, Next to RBI, 49A, A. B. Road, Worli, Mumbai - 400018 Ph: (022) 2490 7070 / 8080
- Kolkata: Prana Lifestyle, 13/3, Ballygunge Circular Road, Kolkata - 700019 Ph: (033) 6550 3900

A Healthy Pursuit

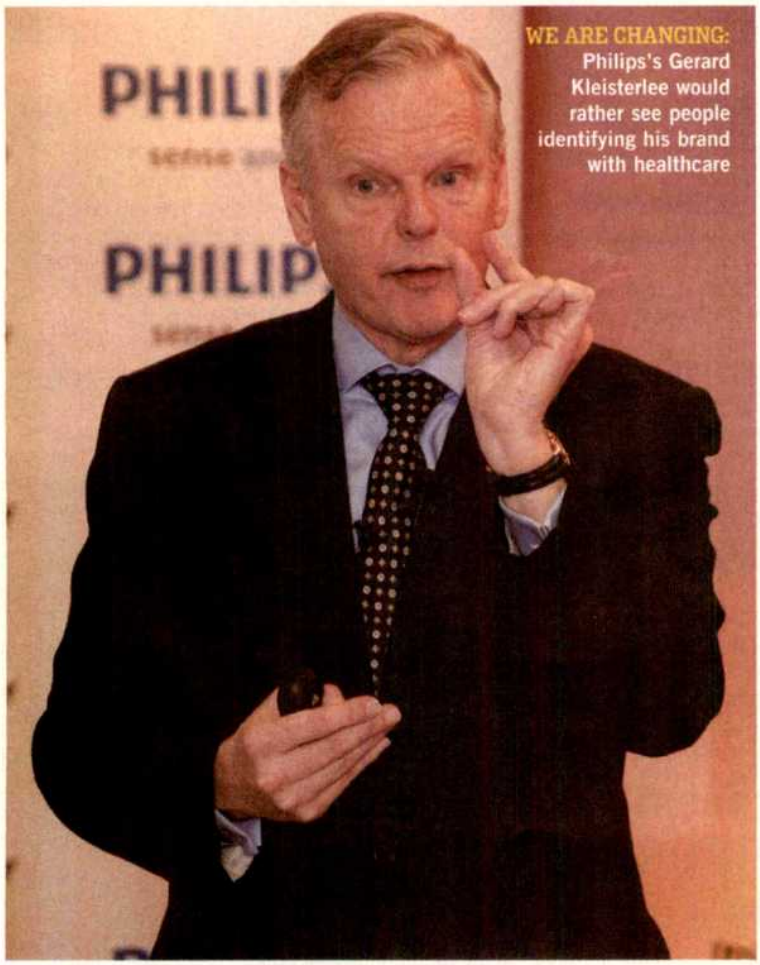
by Noemie Bisserbe

Philips bets big on providing low-cost healthcare solutions

FOR THE PAST TWO MONTHS, A TEAM OF FIVE CARdiovascular X-ray machine experts from the €26.39-billion ($34-billion or Rs 1,76,006-crore) Eindhoven, Netherlands-based Philips has been shuttling between the premises of two companies it bought late last year in Mumbai — Meditronics and Alpha X-Ray Technologies. Reason: to ensure that they implement the "best standards of manufacturing" and to "align their products with Philips's brand positioning", says a company spokesperson.

Philips plans to use their products — which are far cheaper than its own — to help it make a dent in India's tier-II and tier-III towns, a market that it has limited presence in, and which is tied to a larger strategy for emerging markets. So, it will sell their products — ultrasound, X-ray and ECG machines — branded as 'Philips', hoping that its brand promise and the products' low prices will draw customers in the droves.

Theoretically, the strategy is sound, but it is nonetheless fraught with enormous challenges and risks. Significantly, though, it is part of the company's continuing global move to focus on healthcare and, now, on emerging markets.



WE ARE CHANGING: Philips's Gerard Kleisterlee would rather see people identifying his brand with healthcare

Philips's Change Of DNA

What is the first thing that comes to mind when you think 'Philips': incandescent bulbs, DVD players, television? If Gerard Kleisterlee had his way, you would instead think patient monitoring systems, X-ray machines, ultrasound devices, MRI (magnetic resonance imaging) products... Given that Kleisterlee has been president and CEO of Philips since 2001, he has an opportunity to play out his vision.

"We are trying to transform Philips from a consumer electronics company to one that is focused on healthcare," he says, an intent he had made clear in 2002. His reasoning was clear: Philips's traditional business was being buffeted by powerful new players and its main products commoditised, resulting in growth rates and margins heading south. Ergo, refocus on healthcare; in 2008, healthcare sales went up by 15.2 per cent to €7.65 billion ($9.81 billion or Rs 50,031 crore) compared to 2007, though margins dipped a bit. Consumer electronics, though, saw both sales and margins falling (see 'Different Route' on page 49).

This year, Kleisterlee expects over half the firm's revenues to come from healthcare (29 per cent in 2008). And for that, he has adopted an inorganic strategy in emerging markets — which brought in 30.5 per cent of its overall global sales and 16.6 per cent of its healthcare revenues in 2008. Emerging markets also grew faster — healthcare revenues grew 15.7 per cent in 2008 compared to the US and Europe's 14.5 per cent.

Philips had also acquired Dixtal Biomédica e Tecnologia, a Brazilian manufacturer of in-hospital patient monitoring, anaesthesia, ventilation equipment and electrocardiographs, last June, and Chinese patient monitoring company Shenzhen Goldway last April. The strategy remains the same for India. "Stripping down the most basic product in your global portfolio to then export it is not the right approach," explains Kleisterlee. "You need low manufacturing costs to be able to offer quality equipment with basic functionalities at an attractive price." For this strategy to work, Philips will need to

achieve significant volumes. And that, at least in India, is not going to be easy.

Buying Into India's Hinterland

"New acquisitions should provide us with the platform to develop an overall local industrial footprint for Philips in India," says Anjan Bose, senior director and business head of Philips Healthcare in India. "It should also propel India to being one of the key sourcing countries in emerging markets." Today, India accounts for just 2 per cent of Philips' global revenues.

So far, in India, Philips has a clear lead in patient monitoring and cardiac care (PMCC), a market estimated at Rs 214 crore, according to Philips. Rival company GE controls more than half the ultrasound market in the country, pegged at Rs 413 crore, while Siemens leads the market for CT scanners (market size: Rs 259 crore) and MRI (Rs 258 crore).

Philips has started implementing its new strategy in one of the fastest growing categories, the Rs 433-crore market for X-ray systems. At the moment, all of Philips's products in India are imported and costly — its X-ray machines cost Rs 15 lakh-1.5 crore. Meditronics's X-ray machines range between Rs 75,000 and Rs 6 lakh, making it possible for Philips to target tier-II and tier-III towns. The company is also on the prowl for new acquisition opportunities in ultrasound, CT scanners, MRI and PMCC.

Philips believes having local manufacturing facilities will give it an edge over competitors such as Siemens and GE, which also import about 80 per cent and 90 per cent of their products, respectively. Perhaps, but the others are already well entrenched. Siemens makes 50 per cent of its revenues in cities other than India's top six metros. And GE, which distributes its products through a JV with Wipro, sells a wide range of competitively priced products such as black-and-white ECG and foetal monitors targeted at small towns. Result: 30 per cent of its India revenues comes from small clinics and diagnostic centres in tier-II and tier-III towns.

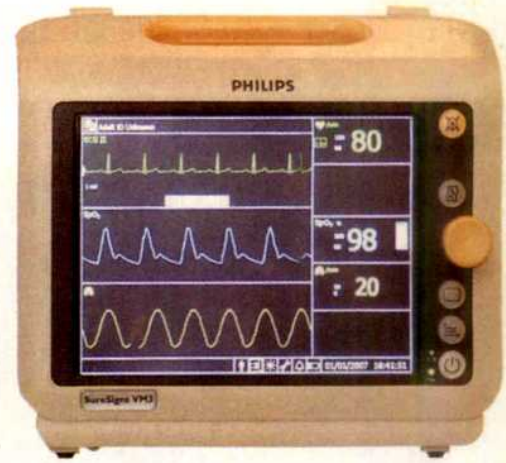
DIFFERENT ROUTE

Philips's healthcare business is growing despite the downturn, consumer electronics is not

	2006	2007	2008
Healthcare sales	6.56	6.60	7.65
Consumer electronics sales	13.11	13.30	11.15
Healthcare margins*	13.10	13.00	11.30
Consumer electronics margins*	5.30	6.40	2.50

Sales figures in billion euros; *Operating margins (in per cent)
Source: Company

GE is also looking for acquisitions to widen its reach, and plans to increase the share of local production from the current 10 per cent to 50 per cent in five years, according to V. Raja, president and CEO of its healthcare business in Asia. Siemens, though, does not plan to take this route. "Technology has been rapidly changing; for many products, 80 per cent of components would anyway need to be imported," says D. Ragavan, executive vice-president for Siemens Healthcare. "For lower-end medical equipment, we would need to manufacture and scale many units to make economies of scale."



REACHING OUT: The Philips SureSigns VM3 patient monitor is primarily designed for emerging markets

Apart from the two MNCs, Philips will have to contend with smaller players such as Adhithiya Medical Systems in Coimbatore, Surat's Mediaids and Jaipur's Samon Imaging Systems, which have competitively priced products.

Tier-II and tier-III towns account for a relatively small share of the Rs 2,157-crore diagnostic medical equipment market, according to Raja. But demand in smaller towns is growing at 40-50 per cent a year, much faster than the overall market growth of 12-14 per cent estimated by Frost & Sullivan. "Demand from district and rural government hospitals is witnessing good growth," says Sandeep Sinha, deputy director for healthcare practice at Frost & Sullivan, South Asia and Middle East.

What could trip up Philips's strategy is the risky manoeuvre of labelling low-cost products of local firms with its brand name. "There is a significant difference in quality between equipment made by local firms and that of international firms," says Surendra Mantena, COO of Secunderabad-based MedPlus Pathlabs, which procures most of its equipment from Siemens. "For X-rays, the quality of images may be poor, and the machines could expose patients to an amount of radiation higher than required, and this can have negative impact on the health of patients that have to go for X-rays regularly."

Philips' response to such concerns is the diligence being carried out by its global team of experts at Meditronics and Alpha, at the end of which, "the price of these products may be changed if need be", says the company spokesperson. That could upset the applecart.

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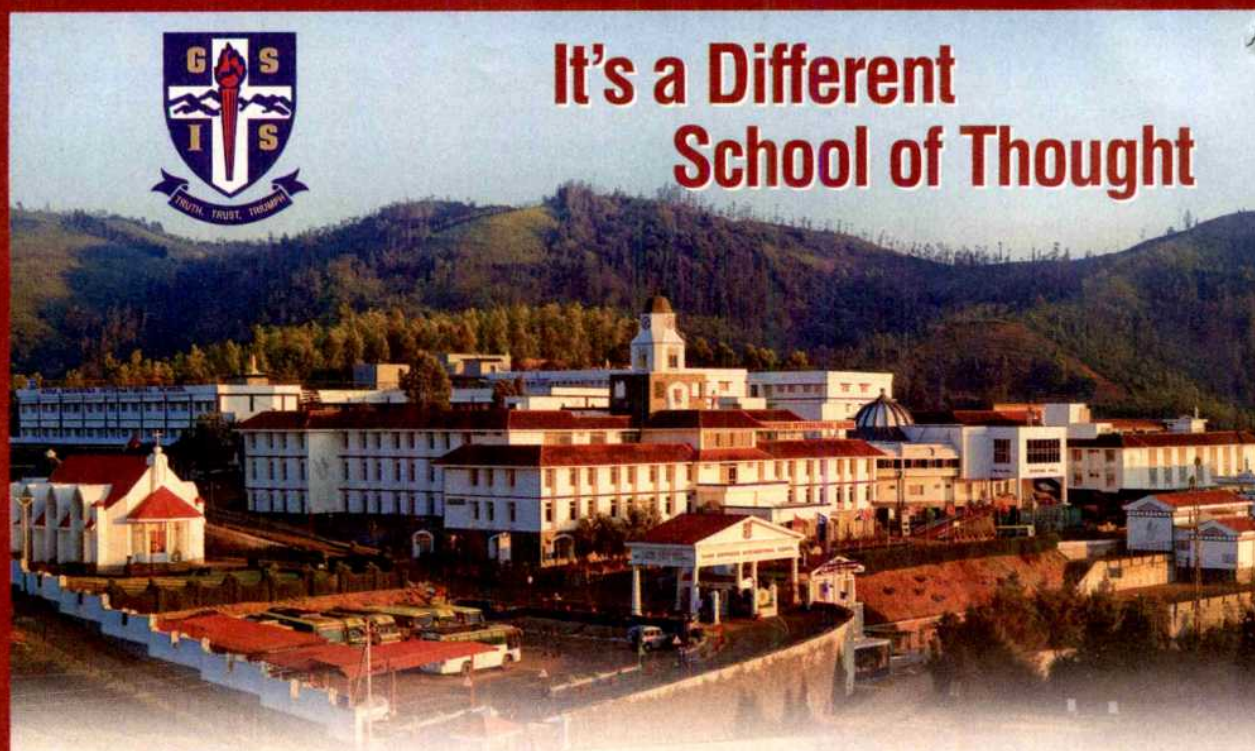
It's a Different School of Thought



In the increasing milieu of schools in India that stake their claims to offering an 'international education' these days, Good Shepherd International School (GSIS) is a class apart. Conceived in the mind of Dr. P. C.Thomas, an educator to his core and a visionary who wanted to bring the best of global education to our country, GSIS is a realization of that vision successfully over the years and continues a grand tradition of imparting excellent education.

What sets this school apart? Neither is the school only one of the many supplementary undertakings of a large corporate house, nor is it one that caters only to the basic educational needs of the underprivileged in the country based on a charitable notion. The school is not international by virtue of only having foreign staff and students or by bringing in value systems that are alien to the Indian educational tradition in a contrived manner. GSIS is an Indian school with an international perspective; it provides varied academic programme with state of the art infrastructure and facilities for not just the gifted but any upward mobile Indian or foreign students from all over the world. GSIS does not merely admit the high achievers among students and facilitate their inevitable success; The School admits average students and moulds them into outstanding citizens by the time they graduate". At GSIS, students from 40 countries acquire an education in a completely Indian residential context, grow up being rooted in basic traditional Indian values and emerge equipped in scholastics and in character to take up the challenges awaiting them in a world growing more fierce and aggressive. This, is what sets the school apart.

The School's Mission Statement is, "Good Shepherd International School endeavours to prepare each student for academic, social and personal success by creating a community of empowered and diverse learners striving to be globally minded citizens in an atmosphere of mutual respect, understanding and trust."

GOOD SHEPHERD INTERNATIONAL SCHOOL

The administration, staff and students are committed to this mission and work together to excel in the academic and co-curricular arenas and to live happily in a spirit of goodwill, camaraderie and fellow feeling at this completely residential School.

GSIS is in an idyllic setting; two sprawling campuses amidst hills and fields, fine weather and a natural, pollution-free atmosphere that satisfies a crucial need in today's world for students to be able to learn, observe, introspect and contemplate in a most desirable environment. Education in such an ambience is a rewarding experience for our students, truly their "wonder years".

Dr. P. C. Thomas, Founder and Principal of Good Shepherd Institutions says, "I believe in inclusive education as the key to human enrichment and India's giant strides to further progress". The growth of GSIS from a small, family operation of 54 students to its current strength of 1200 students and its rating as one of the best residential schools in Asia is a testimonial to the acceptance of its simple, yet firm, underlying philosophy of education and an acknowledgement of its caliber. The Institution has further diversified its operations in the field of education to include the Good Shepherd Finishing School and The Good Shepherd College of Hotel Management where students are offered a unique twinning programme to earn a Bachelors Degree in International Business Hospitality and Tourism Management after two years of study at the GCHM and the third year at the Cesar Ritz Colleges, Switzerland.

GSIS offers three of the world's renowned Pre-University curriculums:

- The ICSE / ISC of the Council for the Indian School Certificate Examination
- The School has recently embarked on offering the CVE Certificate of Vocational Education Examination a two year full time programme equivalent to the +2 Level of the ISC Examinations of the Council for the Indian School Certificate Examinations
- The CIPP / CLSP / IGCSE of the University of Cambridge International Examinations, United Kingdom, and
- The Diploma Programme of the International Baccalaureate Organisation, Geneva.

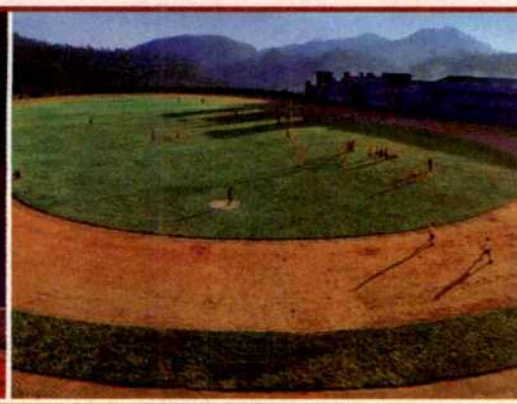
The School spans two campuses. The Primary School for Classes 1 - 6 is at the Fernhill Campus, the former Baroda Summer Palace in Ootacamund, an elegant, charming location overlooking the famed Ooty Lake, while The Middle School, High and Higher Secondary Schools of Classes 7 - 12 are located in the sprawling, relatively new 70 - acre Palada Campus at Muthorai Palada, 5 kms from Fernhill.

Highlights of the Facilities are:

- Eco-friendly Campus
- An expansive academic block of well-designed and fully-equipped classrooms and laboratories
- Large, well-laid out dormitory complexes
- Two Auditoriums, one with a seating capacity of 1200 at Palada
- Two indoor sports complexes
- A rifle shooting range
- Numerous games and sports fields and courts for everything that children would play, from tennis to volley ball, hockey to cricket, squash and basketball, golf and soccer
- Stables that house 30 horses and riding facilities
- An open - air stadium with an eight lane 400 meter half-Olympic size track
- Two heated Swimming Pools

A holistic programme includes instruction and training in every possible area of student growth and development. Dr. Thomas says, "The GSIS endeavour to create all-round, well-balanced individuals who can contribute meaningfully to society and to future India is an ongoing one. Life is a complicated business in which young people take time to find their true niche and potential. They need an environment where they can maximize their options, discover their true strengths and be fostered to meet their goals. At GSIS, this is what we aim to do".

In its firm underlying philosophy of rendering holistic learning, delivered by highly qualified, professional staff within an outstanding infrastructure and eco-friendly campus, GSIS continues it's grand tradition of thirty two successful years and prepares to move dynamically into the future.



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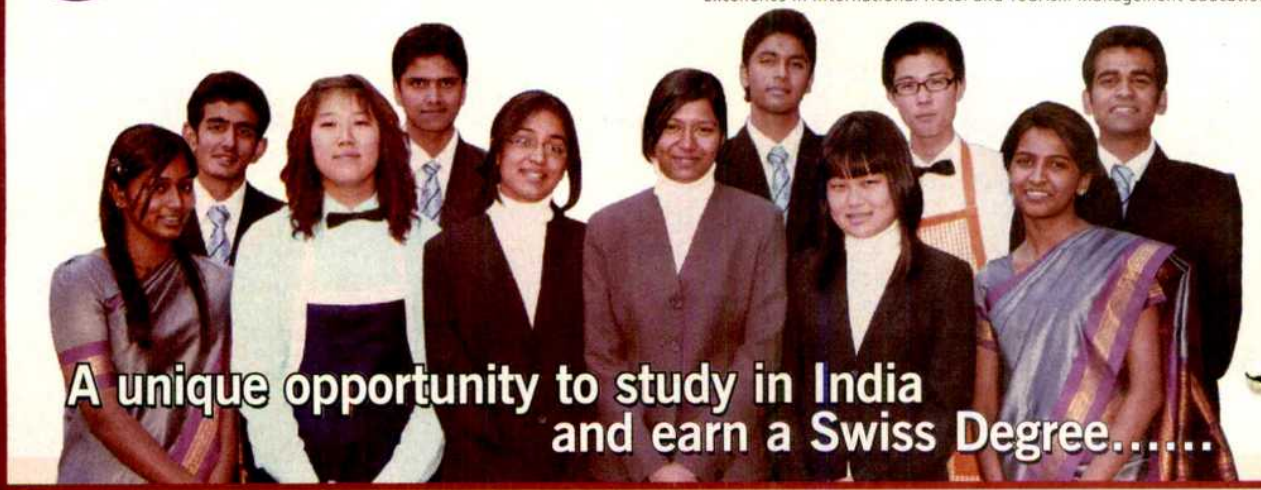

A unique opportunity to study in India and earn a Swiss Degree.....

Good Shepherd College of Hotel Management (GCHM) in its second year now was launched under the Good Shepherd Academy of Higher Education. In partnership with César Ritz, Colleges of Switzerland. It offers a three year Twinning programme in international hospitality and tourism. This programme culminates in a Bachelor of International Business in Hotel and Tourism Management, with a degree from César Ritz Colleges, Brig, Switzerland.

The first two years of the course will be conducted at GCHM, Ooty, the students will complete intensive technique oriented practical courses and hone their management skills. Their theory base includes learning a foreign language. Their third year will be done at the picturesque University Center "César Ritz", Brig, Switzerland.

The Admission criteria and the procedure are fairly simple. Applicants need a High School Certificate (+2) or Equivalent with pass in any stream of study from a recognised Board. Proficiency in English and good communication skills are a priority. There will be a written test, group discussion and personal interview conducted by the college.

The GCHM César Ritz Advantage

A Fully accredited quality programme to garner wide recognition in the industry.
A Faculty of International stature.
Exposure to a global, dynamic and challenging experience.
Wi-fi enabled campus.
Unique twinning programme with year 3 in César Ritz Colleges, Brig, Switzerland.
More than 270 students from 45 countries are currently studying in Brig and GCHM students will join them.

Also offering +2 Course in Hotel Management :
GSIS also offers Plus Two course in Hotel Management equivalent to ISC of the Council for the Indian School Certificate Examinations. Successf candidates of this course will gain direct admission to the College of Hotel Management.

GCHM will offer a three year Degree Course in Hospitality and Hotel Managemer of an Indian University from July 2009. Seats available - 40.

GOOD SHEPHERD COLLEGE OF HOTEL MANAGEMENT

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Today's liberated girls are savvy enough to identify their own strengths and drawbacks. They dream of mastering a plethora of skills, but do not know where to look and whom to ask. The Good Shepherd Finishing School is the answer to all those young ladies who aspire to be the best women can be.

When a young lady steps out of school or college, she invariably discovers that her education has not entirely prepared her for the finer points of homemaking or relationship management. The Good Shepherd Finishing School curriculum is aimed at helping women of today to overcome these hurdles and emerge, fully equipped to take on the world with elegance and élan.

Mrs. Elsamma Thomas, Principal, Good Shepherd Finishing School, says, "The response and curiosity that the Good Shepherd Finishing School has evoked is evidence to the awakening of a need in young women to acquire the skills and the graces that are vitally important to cope at home, the world and in real-life scenarios."

Admissions for the first batch are open from the month of March and for the second batch from the month of November for a five-month intensive / extensive & comprehensive programme. Admissions are confirmed after a personal interview with the candidate.

THE CURRICULUM

HOME SCIENCE
- Home Economics
- Nutrition & Dietetics
- Health & Hygiene
- First Aid
- Parenting Techniques
- Premarital Counselling / Sex Education

BEAUTY AND HEALTH
- Physical Fitness / Yoga
- Fashion/ Dressing
- Hair/ Skin care
- Beauty Therapy
- Personal Grooming

WEEKEND ACTIVITIES
- Hosting Parties
- Fashion Shows
- Tours & Treks
- Seminars
- Workshops
- Mountaineering / Trekking
- Career Guidance

GOOD HOUSE KEEPING
- Multi-Cuisine Cooking
- Interior Decoration
- House keeping
- Flower Decoration
- Budgeting / Banking / Financial Planning
- Etiquette / Hospitality

PESONALITY DEVELOPMENT
- Body Language / Self Esteem
- Communication Skills / Interview Techniques
- Time Management
- Leadership Training
- Effective Public Speaking
- English Speaking

HOBBIES & SKILLS
- Horse Riding
- Golf / Tennis
- Basic Automobile Repair
- Swimming (Heated Pool)
- Ballroom Dancing
- Oil Painting
- Soft Toys Making
- Accessory Making

SOCIAL GRACES
- Table Manners
- Business & Social Etiquette
- International Protocol & Precedence
- Conversation Techniques
- International Fine Dining Etiquette
- Table Setting
- Gift Giving / Social & Business Correspondence / Hostessing

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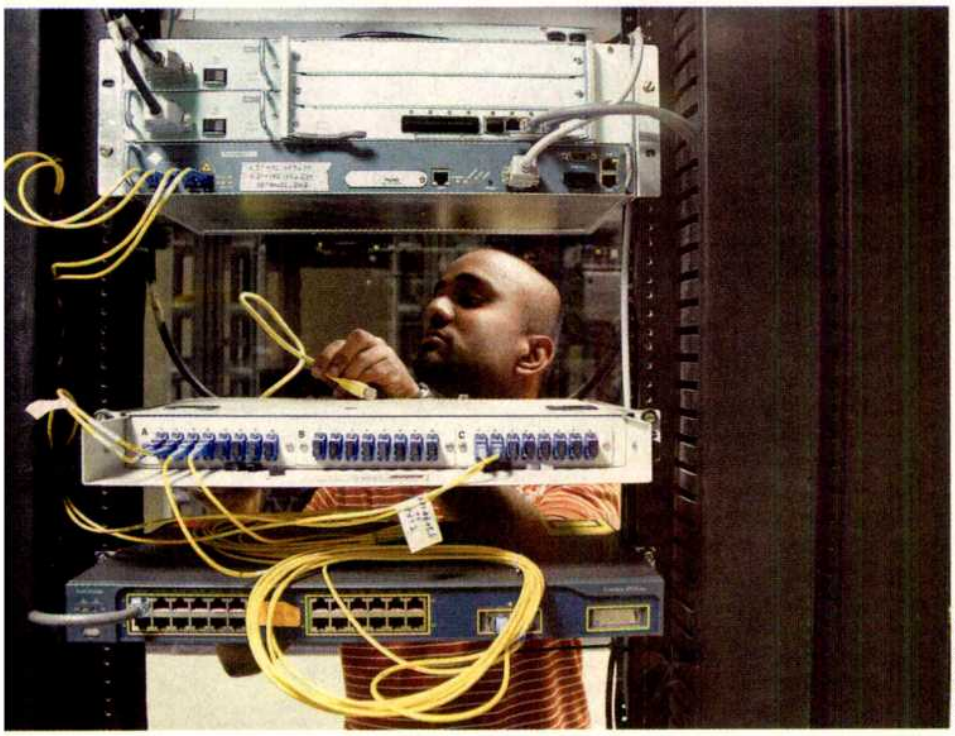
Building On Basics

by Venkatesh G.



SUBHABRATA DAS

Indian firms are now grabbing a large chunk of domestic contracts

POSITIVE ANGLE: Outsourcing contracts for IT infrastructure such as servers are now being bagged by domestic companies

HOMEGROWN IT FIRMS MAY BE THE FAVOURITES TO bag global software outsourcing contracts, but when it comes to IT infrastructure, they have been laggards in bagging even deals emanating from India. Whenever companies outsourced IT infrastructure (which includes hardware such as servers, storage boxes and high-end security or customer relationship management or ERP software), they rarely trusted domestic IT firms.

Even domestic firms were more focused on small but high margin, low-hanging fruits in the western markets rather than making serious bids for business within India.

As a result, big-ticket deals in the league of the $750-million outsourcing contract by Bharti went to IBM. It also bagged similar deals from Idea and Vodafone-Essar in fiscal 2008. Flashback to 2004, and HP and Accenture bagged large contracts from Bank of Baroda and Dabur.

But with the West going through a recession and deals harder to come by, this trend is set to change as Indian companies fight aggressively for domestic deals. In August 2007, TCS kicked off the aggressive run by bagging a Rs 574-crore outsourcing deal to manage call centre and administrative work for BSNL, beating MNCs such as IBM and HP.

And 2009 has taken the story forward. In March, Wipro bagged a Rs 1,200-crore contract from Employees' State Insurance Corporation (ESIC) for computerisation projects, fighting off rivals such as Capgemini, TCS and IBM. Recently, HCL Technologies bagged a Rs 393-crore outsourcing deal from National Insurance Corporation (NIC), beating HP, Accenture and Infosys. HCL will provide end-to-end outsourcing — including designing and maintaining future IT requirements.

And in January, Infosys bagged a five-year contract worth Rs 250 crore from the income-tax (I-T) department to set up a business process outsourcing (BPO) unit.

In the past six months, domestic firms have grabbed nearly 72 per cent of all domestic IT infrastructure management contracts as against barely 15 per cent earlier.

Spin Of The Lucre

Since early 2000, most outsourcing contracts have been for project-based work such as Enterprise Resource Planning (ERP) implementation, rather than comprehensive outsourcing initiatives. In addition, while some Indian providers such as TCS, Infosys and Wipro have become leading global suppliers of outsourcing services to companies such as Bank of America, they have so far overlooked the local market.

One of the reasons was the comparatively lower margins of 8-15 per cent in Indian contracts as against an average of 10-18 per cent from foreign contracts. "For global companies, it was the chance to be present in these markets from the nascent stage," Edge Zarrella, global head of IT Advisory, KPMG, told *BW* recently.

Now, faced with fewer contracts from the West and rapidly thinning margins from existing contracts, these margins seem lucrative for Indian companies too. During the BSNL deal, TCS Chairman and Managing Director S. Ramadorai had said that margins in Indian outsourcing contracts were getting lucrative. "Nearly 11 per cent of our revenues come from the domestic market, something we cannot ignore anymore," he said.

Storage And Security Concerns

The primary reason behind this focus on IT infrastructure management is that it is the second fastest growing segment (see 'On A New High') of the market after ITeS where domestic firms already have a firm footing. In 2008, the IT services market (that comprises largely of IT infrastructure) grew 23.1 per cent. This year, the growth is being projected at 19.3 per cent.

In 2008, the growth in IT infrastructure was driven by information systems outsourcing (32 per cent), network (23 per cent) and application management (20 per cent) and desktop management (22 per cent).

Riding on the growth in the past four years, Indian enterprises have been upgrading themselves to compete in the local and global markets. "The Indian CIO today is faced with many challenges like globalisation, need for 24x7 support, compliance, robustness, agility and dwindling skill sets," says Anil Jaggia, chief information officer (CIO) of HDFC Bank. Other firms have to outsource because they are struggling to find the talent. "We have to look at outsourcing as in the past few years talent has been going to IT companies rather than to our sector," says head of one of Dena Bank's IT departments.

A recent report by security software maker Symantec points out that Indian firms have to gear up for virus attacks, data loss and virtual environments (offices across the world with similar look and feel without having to invest in them coupled with mobile work environments). These factors are driving Indian enterprises to re-evaluate their disaster recovery plans. "Enterprises should identify, classify and prioritise critical assets for preventing this," says Anand Naik, director-systems engineering, Symantec.

A February survey of Indian chief information officers conducted by research group Gartner points out that IT budgets across all sectors will grow by 5.5 per cent in 2009. Mark McDonald, group vice-president, Gartner, believes, "Growth will be in areas such as virtualisation, storage and unified communications." Steven Leonard, president, APAC and Japan, EMC, says, "With increasing focus on regulatory compliance, areas such as storage and security would see a higher adoption."

New Opportunities

As business complexity increases, more IT infrastructure is being spawned, throwing up fresh openings. For instance, Hindustan Motors, Sundaram Clayton, Intas Biopharmaceuticals, Sutlej Textiles & Industries and SKH Metals are running SAP applications on DB2 9 as their database platform, which is not only cost effective but also secure and scalable. And Accenture, Bristlecone India and Sify Technologies bagged their contracts. Another new trend in storage is 'storage virtualisation'. Hu Yoshida, vice-president and chief technology officer of Hitachi Data Systems, says, "On an average, there is only 20-30 per cent utilisation of existing storage. Virtualisation of assets will increase storage utilisation during tough times."

Improvements in networking, such as cheap bandwidth, low-latency connectivity links, and secure WAN optimisation are some of the factors driving the networking industry. Companies are looking at a combination of IP-based and Ethernet technologies for their networking needs. IP telephony, network security, storage networking and Wireless LAN will see higher adoption in India, according to Blair Crump, worldwide president of Verizon Business.

Companies such as Ford India, Dr. Reddy's Laboratories, Tata Group, Mahindra & Mahindra, Larsen & Toubro, Gas Authority of India (GAIL), Indian Oil Corporation (IOC), Taj Group of Hotels and Hindustan Unilever are using these technologies.

Adversity too is breeding new opportunities. In times of growing terror threats, the Indian security market is witnessing an uptick amidst global recession. Entering the Rs 2,000 crore market is HCL Security, a 100 per cent subsidiary of HCL Infosystems, which has introduced the concept of a 'Safe State'. Safe State is an architecture that leverages technology to build a security framework that will safeguard life, infrastructure and society.

As the economy slows down, virtualisation is gaining acceptance. "Desktop virtualisation is a greenfield opportunity for us," says Souma Das, area vice-president, Citrix India.

Indian companies are still adopting technology in bits and pieces. But industry watchers believe that use of technology to drive down costs and increase productivity can boost the economy as well. But there is a big question mark over who will adopt this school of thought to increase IT investments in a slowing economy.

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ON A NEW HIGH

The domestic market for Indian IT is expected to grow manifold

	Revenues * 2009 (cr)	Revenues * 2008 (cr)	Growth in 2009 over 2008 (%)
Total India IT market	1,04,937	92,975	11.4
Hardware	63,703	59,180	7.1
Total ITeS (IT enabled services)	9,637	5,705	40.8
Services	29,934	24,157	19.3

* projected figures

Source: IDC India domestic IT market

'Generics spell scale for Big Pharma'

–Olivier Pécoux

Partner and co-head of global investment at Rothschild

GLOBAL PHARMACEUTICAL FIRMS ARE FACING unprecedented challenges as their new product pipelines becomes thinner, regulatory agencies stricter and generic competition intensifies. As they struggle to keep their heads above water while swimming from one blockbuster drug to another, leading pharma companies are crossing over to the 'evil side', as they refer to generic drug makers, in a desperate attempt to de-risk their core business. Olivier Pécoux, partner and co-head of global investment at London-headquartered Rothschild, the two centuries-old European bank, which offered discreet counsel and investment wisdom to kings, queens, emperors and industrial titans, has worked for over a decade with pharma companies. He talks to *BW's* Noemie Bisserbe about the new trends in the global pharma industry and what it means for Indian companies. Excerpts:

PHOTOGRAPH: TRIBHUWAN SHARMA

Q: What trends do you see today in the pharma industry globally?

A: Pharma companies have, for some time now, been looking for ways to increase the productivity of their research through selective acquisitions in biotech, new molecules in-licensing and by reorganising their research teams. But I think that they have now come to realise that they have seen the limits of this exercise.

They are today looking for ways to limit the impact of bad cycles in their research by adding new businesses, which could be some sort of cushion to their main activity. There are two different ways of thinking. You have companies such as Pfizer, which still believe that a big merger may have a significant impact on its cost structure. That is one way of thinking. But an increasing number of companies are thinking about increasing their presence in businesses that are less risky and less dependent on the US FDA(Food and Drug Administration)'s lengthy approval process, like over-the-counter and generic drugs.

That's a strategy that Novartis has adopted with Sandoz, today one of the world's leaders in generics. Ten years ago it was seen as a big mistake. Generics may offer high volume growth, but low margins, and at that time the benchmark for pharma companies was a 30-40 per cent operating margin. So generics were considered as a business impasse. But today that perception has changed. Last year, Sanofi-Aventis acquired Zentiva in Eastern Europe, GlaxoSmithKline too acquired last October the Egyptian mature products business of Bristol Myers Squibb.

Q: Generic drug makers are themselves looking for new avenues for growth. So can generics really help Big Pharma keep its head out of water?

A: The generic business is already an optimised one. Companies are trying to increase by any means the productivity of their manufacturing operations and their distribution networks. But for Big Pharma, entering the generics business is a way to gain scale in emerging markets such as Latin America, Eastern Europe and Asia, and to become truly global. And generic companies are the only businesses that you can really buy, the only businesses that exist in these markets. The challenge is to build a critical presence in markets that are set to witness strong growth in the future. That's why the price for Ranbaxy was so high. It was a way for Daiichi to enter the Indian market, potentially one of the fastest growing markets in the world.

Pharma companies also have a tail of mature products that they need to sell. As the patent protection of a product comes towards an end, business goes down by 15, 20 or 25 per cent sometimes. So anything they can do to push and promote these products, is an opportunity for them. It allows them to manage better their products' life cycle.

Q: Is Big Pharma looking for takeover targets in India?

A: Yes, for sure, absolutely. I don't know why there haven't been more transactions in India so far, but I assume that it will change very soon.

Q: In which new sectors can pharma companies diversify to de-risk their strategy?

A: Roche is the perfect example of an R&D intensive company that has another very strong leg. Roche's diagnostic business gives the company stable revenues. Likewise, Johnson & Johnson's medical devices business provides great support to the group.

And that is in the mind of every leading pharma company around the world, to find ways to enter less critical healthcare businesses that could be compatible with their franchise. If you are in the cardiovascular business selling anti-thrombosis drugs, you may want to sell stents as well, as you will be dealing with the same specialist. Pharma companies may take over diagnostic and medical device and equipment manufacturers.

Q: Could the acquisition of Wyeth by Pfizer last January for $68 billion signal the beginning of the long-awaited consolidation of the global drug industry?

A: I don't think so. These big mergers are essentially driven by strategic reasons, mainly to reduce cost. But it doesn't do much for what is absolutely vital for a pharma company: research. You won't double the productivity of your R&D just by doubling the size of your team. If you look at the trend in R&D, it has been exactly the opposite. Pharma companies are creating sub units that work with a certain autonomy. What really matters is the quality and the motivation of your scientists. That's why biotech firms are so successful. They are getting the best talent. But the problem is that scientists working in biotech firms are themselves against the idea of being taken over by Big Pharma. That's why we haven't seen that many deals so far. That would be running the risk of driving productivity down, a risk no one can take.

Background

The Rothschild family is an international banking and finance dynasty of German Jewish origin, ennobled by the Austrian and British governments. The bank was established two centuries ago by five sons of Mayer Amschel Rothschild, a moneychanger born in Frankfurt. The sons set up operations in Frankfurt, London, Paris, Vienna and Naples. The Italian and Austrian branches were however closed down in 1863 and 1938 respectively. Today, the group has 45 offices worldwide and 2,000 employees.

The Burden Of Debt

by kenneth rogoff

ONE IS YET TO HAVE ANY REAL IDEA ABOUT WHEN the global financial crisis will end, but one thing is certain: government budget deficits are headed into the stratosphere. Investors in the coming years will need to be persuaded to hold mountains of new debt.

As growth slows, public debt mounts and interest rates head north, deficits will be difficult to sustain

Although governments may try to cram public debt down the throats of local savers (by, for example, using their influence on banks to hold a disproportionate quantity of government paper), they will eventually find themselves paying much higher interest rates as well. Within a few years, interest rates on long-term US Treasury notes could easily rise by 3-4 per cent, with interest rates on other governments' paper rising as much, or more.

Interest rates will rise to compensate investors both for having to accept a larger share of government bonds in their portfolio, and for an increasing risk that governments will be tempted to inflate away the value of their debts, or even default.

In research that Carmen Reinhart and I have done on the history of financial crises, we find that public debt typically doubles, even adjusting for inflation, in the three years following a crisis. Many nations are now well on the way to meeting this projection.

China has clearly indicated that it will use any means to backstop growth in the face of a free fall in exports. The Chinese have $2 trillion as currency reserves to back up their promise. President Barack Obama's new budget calls for a stunning $1.75 trillion deficit in the US, a multiple of the previous record. Even those countries that are not actively engaged in a fiscal orgy are seeing their surpluses collapse and their deficits soar, mainly due to falling tax revenues.

Indeed, few governments have submitted quite unrealistic budget projections, relying on rosy economic scenarios. Unfortunately, in 2009, the global economy will not be a bed of roses. Income in both the US and euro-area appear to have declined at an annual rate of roughly 6 per cent in the fourth quarter of 2008; Japan's GDP fell at perhaps twice that rate.

China's claim that its GDP grew at the rate of 6 per cent, during the end of last year, is suspect. Exports have collapsed throughout Asia, including Korea, Japan and Singapore. Arguably India, and to a lesser extent Brazil, have been holding out a bit better. But few emerging markets have reached a stage at which, they can withstand a sustained collapse in the developed economies, much less serve as substitute engines of global growth.

With the credit crisis still making it difficult for many small and medium-size businesses to obtain even the minimal level of financing necessary to maintain stock and conduct trade, global GDP is on a precipice in 2009. The global growth might register its first contraction since World War II.

In all likelihood, few countries will see output declines of 4-5 per cent in 2009, with some having drops of 10 per cent or more. Worse yet, unless financial systems spring back, growth could disappoint for years to come, especially in the US, UK, Ireland and Spain. The US's long-term growth could be dismal too, as Obama's men steer the country towards more European levels of welfare assistance and income redistribution.

Countries with European-style growth rates could handle debt obligations of 60 per cent of GDP when interest rates were low. But, with debts in many countries rising to 80 per cent or 90 per cent of GDP, and with today's low interest rates an interim phenomenon, trouble is brewing. Many of the countries that are piling on massive quantities of debt to bail out their banks have only tepid medium-term growth prospects, raising real questions of solvency and sustainability.

Italy, for example with a debt-to-income ratio exceeding 100 per cent, has been able to manage so far. But as debts mount, and global interest rates rise, investors will be nervous about the risk of debt restructuring. Other countries, such as Ireland, Britain and the US, started with a much stronger fiscal position, but may face tough times in future.

Exchange rates are another wild card. Asian central banks are still nervously clinging to the dollar. But with the US printing debt and money like it is going out of style, it would appear the euro is set to appreciate against the dollar two or three years down the road, if the euro is still around, that is.

As debt mounts and the recession lingers, we are surely going to see many governments trying to lighten their load through financial repression, higher inflation, partial default, or a combinations of all three. Unfortunately, the endgame to the great recession of the 2000s will not be a pretty picture.

The author is Professor of Economics and Public Policy at Harvard University, and was chief economist at the IMF.
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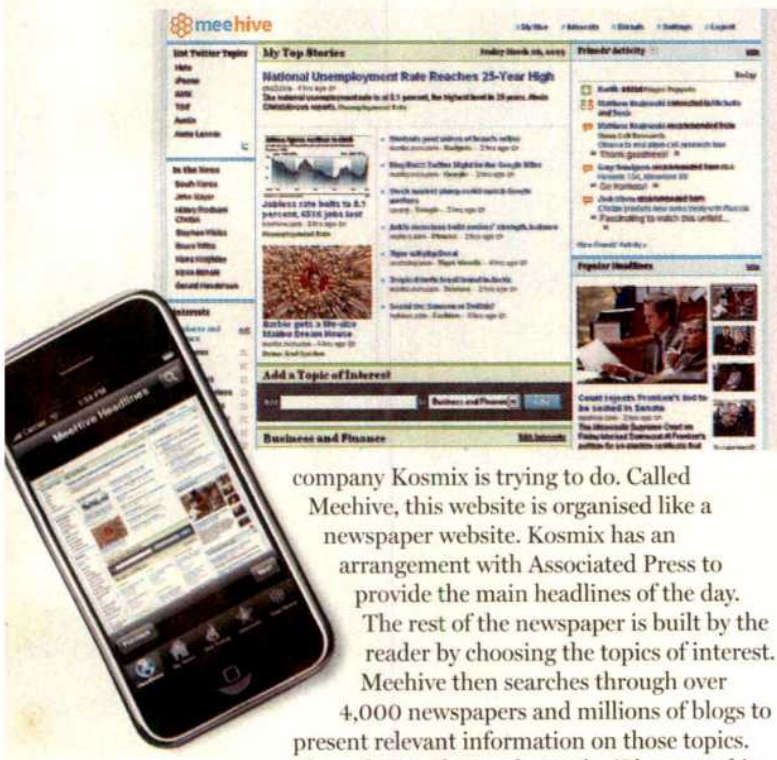
Tech Talk

Technology, Science, Innovation...

Personal Newspaper

In the Information Age, the most worrying thing is that there is a surfeit of information. There are now thousands of newspapers on the internet. Not many would read more than a few of them, but there could be interesting — sometimes invaluable — nuggets you do not read or even know about. How would you get them? There is Google — a great way to get information when you know what you are looking for, but a very inefficient method when you do not.

What if you could personalise your newspaper, choosing general news and then topics on which you want your news to be delivered? This is what the Silicon Valley company Kosmix is trying to do. Called Meehive, this website is organised like a newspaper website. Kosmix has an arrangement with Associated Press to provide the main headlines of the day. The rest of the newspaper is built by the reader by choosing the topics of interest. Meehive then searches through over 4,000 newspapers and millions of blogs to present relevant information on those topics. The software also works on the iPhone, and is now available for public use.



Presto, You Boot

Anyone who has used a Windows computer would have been frustrated by at least one aspect: its slow booting. Even a fresh Windows PC boots slowly, and takes longer and longer as it gets older. Companies such as HP and Intel provide ways to boot the PC quickly for some applications. Now, there is a new way to get around this problem: a software called Presto, made by Canadian company Xandros. This software will be available for beta testing later this month, and the commercial version will be available for $19.95 (about Rs 1,000) from 13 April. Presto will boot in a few seconds; and it is supposed to let you do 95 per cent of the work you would want to do on a PC, such as browsing, downloads, email, Skype calls, and play music or video. You can even access files from Windows folders.

The software is primarily aimed at laptop users: to encourage them to shut down their PCs and save power. It is supposed to be secure, and works with anti-virus software and wireless networks. It can also speed up old machines, and make them work like new. All you need is 4 GB of free hard disk space.

Quick Charge

One of the most frustrating aspects of a cellphone is that it takes a long time to charge. Now, researchers at the Massachusetts Institute of Technology (MIT) have developed a small lithium-based battery that charges in 10 seconds, instead of six minutes for batteries of this size.

Lithium ion batteries take a long time to charge as they conduct electrons slowly, and ions take longer to move into the material. Led by Gerbrand Ceder, professor of materials science and engineering, the researchers found that ions move quickly through specific tunnels in the material. They devised a way for the ions to move quickly through the outside of the material and come into contact with the tunnels.

Slow moving ions are also the reason why electric cars accelerate slowly. This work could help produce better electric cars as well. Since the material used in the MIT battery is the same as those used in commercial batteries, the device should appear in the market soon.

P. Hari in San Francisco

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GENEVA MOTOR SHOW

Fast and fabulous

Wiesmann's MF4 Roadster:
Powered by a BMW drivetrain, this gorgeous retro-style convertible can touch speeds up to 300 km/hr

IT IS 104 YEARS OLD, BUT AGE WASN'T A FACTOR for the low-key launches at this year's Geneva Motor Show. Home to the elusive Swiss bank accounts, Geneva usually attracts the flashiest, the fastest and the most expensive cars in the world. But this year it was quite subdued. Well, blame it on the economy. The auto industry has been one of the conspicuous victims of the global crisis thanks to the spectacular near-failures of Detroit's big three. Still, there were enough premieres to keep the car-loving fans of Geneva happy, including these five spectacular super cars featured here.

But to buy one of them, you may well need to sell your home. Power comes at a price, and most of these cars are at the very upper-end of the auto market. Thankfully, for the manufacturers, there are enough customers who find nothing wrong in spending such amounts of money, downturn or no downturn.

By Pierre Mario Fitter

Bugatti Veyron Bleu Centenaire

Bugatti is back with a new and incredibly limited edition car (only one Bleu Centenaire will be produced). Its engine produces 1,001 bhp — some 300 hp more than the average Formula One car

AP

Lamborghini Estoque

The Estoque confirms that sportscars can indeed be made to look like fighter jets. Bold lines and curves make this one of the most gorgeous cars designed

Spyker C8 Aileron

Spyker intends to increase its popularity and brand value through the stunning C8 Aileron

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DRINKING OUT

Old world froth

HISTORICALLY HIGH: The Ye Olde Cheshire Cheese pub remains a hot favourite

LONDON SURE LOVES living in history. And quite rightly so. Going by the excellent historic pubs it has, no one would want it to live in the present. Consider the age-old Ye Olde Cheshire Cheese, for instance. Rebuilt in the year following the great fire of 1666, it still is one of the most frequented. The pub's cellars date back to the 13th century — it was part of a Carmelite monastery that once stood here. Nothing can quite match the dark woodsy interiors, intimate booths and atmospheric dining rooms of London's oldest watering holes.

'The Cheese' is a rambling structure, with panelled corridors and archaic staircases, which narrow as they wind down to its must-see stone vaults. An ancient coal-fired fireplace that simmers during cold winter months completes the old era look.

Several famous men of yore were patrons of this exotic place, more so because it is located in an alley tucked off Fleet Street. British artist and war correspondent William Simpson served as a waiter at this living relic, even as Dr Samuel Johnson, his eventual biographer James Boswell, Voltaire and Charles Dickens were regular visitors.

"This pub has twice as much history as Australia, where I come from," says James, a bartender at The Cheese.

Several of London's historical pubs have outlived many monarchies and continue to serve the best beers; some of their ales are still stored in casks. If you are into mild beers, go for Samuel Smith. Even their potato soup and pie recipes are historical.

The earthy Old Bell, originally a workman's alehouse, is another Fleet Street favourite — drinkers perch on triangular oak stools and the floors are so worn that they undulate.

The Princess Louise in central London's Holborn may have a relatively plain exterior, but its heavy wooden doors hide a warm and classy interior that glows with antique lamps and stained-glass windows.

Other must-visits include the Prospect of Whitby at Wapping, The George at London Bridge, The Albert on Victoria Street, The George and Vulture at Cattle Court, The Coach and Horses on Greek Street, and The Tipperary, also on Fleet Street.

Enjoyable and charming, these old pubs are among the quietest and most peaceful watering holes in perhaps the whole world.

Rajesh Gajra

RESORTS

Redefining luxury

RICH HOSPITALITY: Aman Delhi brings super luxury to the capital

THE ONLY AMAN Resort in a metropolis is due to open in Delhi in April. Nobody rewrites the rules in super luxury with as much elan as Aman's founder-chief Adrian Zecha, the 65-year-old Dutch national who let DLF acquire controlling stake in Aman's sublime portfolio of 20 unique resorts worldwide in an expansion-driven Rs 2,000-crore deal in November 2007.

While the world's jetset likes to thank Zecha for pioneering small, very high-end boutique hotels and ultra luxury tents, he breaks his own code in Aman Delhi, which will have 67 rooms, the most ever in a group that has preferred not to build more than 40 on an average.

That said, Aman Delhi will benefit from Zecha's signature combination of minimalist styling, synergy with indigenous architecture, private plunge pools for most suites, and the absence of a formal reception desk, bellboys or even the standard lobby — guests are directly escorted to rooms — which lends every Aman the air of an enormously wealthy private residence.

Known to pay attention to every last detail — including the way light falls on a table and water fills a pool — staff can be expected to outnumber guests by four to one, and the location is superlative. Aman Delhi, its opening delayed by four months, is magnificently placed on the edge of the Lutyen's Delhi, where the old Lodhi Hotel once stood, minutes away from the Unesco World Heritage site of Humayun's Tomb. Tariff typically ranges from Rs 27,500-Rs 1,10,000, plus taxes per night.

Coincidentally, Aman Resorts, listed No. 1 among top international hotels, resorts and spas by the 2008 Zagat Survey, completes two decades this year.

Shalini S. Sharma

Glassed In: An artist's rendering of the Skyloft Penthouse at 145 Hudson Street in New York. The glass-enclosed 7,400-sq.ft TriBeCa penthouse sold for $30 million, which is at a discount of 13 per cent, showing that some of the borough's luxury developers are willing to negotiate price.

BLOOMBERG

Banking in India

The Indian banking industry is one of the most established sectors in India and also one of the most important for the country's economy. Public sector banks make a prominent part of it, and account for 78 per cent of the country's total banking assets

India's banking sector started as early as the eighteenth century. One of the most credible banks in the country, the State Bank of India (SBI) was established in 1806.

Today, a whole gamut of banks and financial institutions comprise the banking industry, with 88 scheduled commercial banks, 29 private banks, 27 public sector banks and around 31 foreign banks.

Public sector banks enjoy a relatively large share in the total banking assets, approximately 78 per cent. For example, SBI enjoys a strong network in the country with about 9000 branches, and is constantly making efforts to improve its services and customer outlook.

One of the recent initiatives that the bank has taken include setting up a smart card facility in Uttar Pradesh that will directly help the beneficiaries of the National Rural Employment Guarantee Act (NREGA). The project was rolled in the Unnao district of the state on a pilot basis. With this SBI expects to cover about one crore beneficiaries in collaboration with the government of UP.

According to O.P. Bhatt, the chairman of SBI, the bank will open 1000 branches covering 100,000 villages in the next financial year. The bank is said to have collected $5.54 billion in December 2008, which was the highest collection by any bank in India in that month.

According to a market research company, the banking industry in India is expected to grow at a compound annual growth rate (CAGR) of about 23.3 per cent till 2011.

Another report says that there are a total of 56,640 bank branches in the country, employing 893,356 employees, and running about 27,000 ATM machines (taking into consideration all banks in India). Of these, 87.7 per cent offices, 82 per cent staff, and 60.3 per cent ATMs are come from public sector banks, representing a large chunk of the Indian banking industry.

The Indian banking industry is made up of 88 scheduled commercial banks, 29 private banks, 27 public sector banks and around 31 foreign banks

Urban cooperative banking

Cooperative banks in India, like the rest of the world, are customer-owned financial entities that are owned and operated by its members. The cooperative bank movement came to India after the success of cooperative banks in the west. Even though these banks were initially focused on rural areas, they have now moved to urban areas as well. They have become an important part of the country's financial system and work in the fields of self-employment, small-scale industries, home finance, consumer finance and of course, personal finance in urban areas. The first cooperative bank in India, the Anyonya Co-operative Bank, is also considered to be the first such bank in Asia.

At the 9th All India Conference Urban Cooperative Banks and Credit Societies organised by National Federation of Urban Co-op Banks & Credit Societies (NAFCUB), President Pratibha Patil said

Promotion

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INTERPUBLICITY/SBI/ENG-12/08-09

that there is a need to focus on new management systems and technological advancements in the urban cooperative bank sector, so as to make them equally competitive with bigger players in the industry.

Quite a number of banks are taking the President's advice seriously. For example, in August 2008, Punjab State Cooperative Bank and 19 district central cooperative banks partnered with Oracle and Flexcel International to deploy Flexcube, a complete banking product, and this was seen as the largest core banking rollout in the Indian co-operative banking sector.

According to the Reserve Bank of India (RBI), the genesis of urban cooperative banks in India can be divided into three separate stages starting 1904 when the Cooperative Credit Societies Act, 1904 was enacted. Even though the Anyonya Sahakari Mandali, now the Anyonya Co-operative Bank discussed above, was setup in the princely State of Baroda in 1889, the real push to the cooperative banking system only came after the enactment of the 1904 act.

In 1991, RBI appointed the Marathe Committee to look into the regulatory framework of urban cooperative banks. In 1993, RBI accepted the recommendations of the committee that included removing the 'one district one bank' policy and organising banks on need basis and identifying business potential within any area. A revised policy was setup in May 1993, and from that time till March 31, 1999, RBI gave out an astounding 537 new bank licenses. This resulted in the number of branches of urban cooperative banks to increase from 3691 in March 31, 1993, to 6619 by March 31, 1999. The deposits strength increased from a low Rs 153 crore as at June 30, 1967 to Rs 50544 crore as on March 31, 1999. In 1999, Andhra Pradesh, Gujarat, Karnataka, Maharashtra and Tamil Nadu had 78.97 per cent of the total urban cooperative banks in the country.

As per the NAFCUB website, the total number of urban cooperative banks in the country now stands at 1853, with a total of 7217 branches, having a total share capital of Rs 3479 crore.

Currently, urban cooperative banks have a whole set of regulations in place that make it easy for them to operate. As per the RBI website, these include:

- Can invest 10 per cent of surplus funds outside of cooperative banking
- Can finance agricultural operations directly
- Allowed merchant banking and foreign exchange operations
- Can install ATMs without approval from RBI

The Greater Bank Story

The Greater Bombay Co-operative Bank Ltd, more popularly known as Greater Bank, had its humble beginnings over five decades ago on December 10, 1952, when a small group of philanthropists got together to set up the bank. Though the founders were pursuing an interest of their own, they decided to establish the bank with the sole motto of serving the community at large. With this end in view, they introduced attractive deposit and lending schemes relevant to the times.

Shri Narendrakumar Baldota, Chairman, The Greater Bombay Co-operative Bank Ltd

The bank has achieved distinguished success in the co-operative banking sector, particularly during the last few years because of its distinct objectives, strategic plan of action, continuous monitoring and sharing of success with concerned personnel. Good corporate governance and a committed management have been instrumental in The Greater Bombay Co-operative Bank reaching greater heights.

The bank has a deposit base of more than Rs 1000 crore and a business mix of more than Rs 1600 crore. It also has the distinction of being India's first co-operative bank with ISO 9001:2000 certification for all its branches and independent departments.

The customer fraternity of the bank has been growing year after year. Novel banking products introduced by the bank such as Personalised cheques, Cheque depositing machines, Kiosk machines, ATM, RTGS payments, Demat services, Franking of documents and more recently bank assurance, PAN and Mutual fund services have paved way for customer satisfaction. The bank has implemented Core Banking Solution (CBS) by adopting the application service provider (ASP) model and has tied up with c-EDGE, a joint venture between State Bank of India (SBI) and Tata Consulting Services (TCS). The bank has successfully launched CBS at all its 19 branches.

With highest regards to senior citizens and a belief in social commitment The Greater Bombay Co-operative Bank has special interest rates on deposits by senior citizens that are among the best in the banking industry.

With Shri Narendrakumar Baldota at the helm, the Greater Bombay Co-operative Bank is taking major strides in the field of banking.

Promotion

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181days to 1 Year	8.00	8.00
Above 1 Year to 13 Months	**10.25**	**10.75**
Above 13 Months to 2 Years	9.00	10.00
Above 2 Years to 3 years	9.50	10.00
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Moving ahead

With time, there are a lot of changes that are coming about in the banking industry in India, especially in the public and cooperative banking sector. Not only are banks in these sectors becoming more competitive, but they are also exploring new avenues of business like life insurance and mutual funds. Some examples of this would be the Universal Sompo General Insurance Company, a joint venture between Allahaband Bank, Indian Overseas Bank, Karnataka Bank, Dabur Investment Corporation and Sompo Japan Insurance Inc, the tie-up of Dena Bank with the Life Insurance Corporation (LIC) etc.

Traditionally, the insurance sector in India was ruled by LIC. But with the government allowing foreign direct investment (FDI) of up to 26 per cent in the sector, there have been a large number of joint ventures taking place in the country, not only with players in the private sector, but also with those in the public sector.

A recent example of this would be the setting up of the Star Union Dai-ichi Life Insurance in December 2008. A joint venture between Bank of India, Union Bank of India, and Japanese life insurance provider Dai-ichi Mutual Life Insurance, Star Union Dai-ichi Life Insurance, as the name suggests, will operate in the field of life insurance.

According to news reports, the insurance company is planning to bring in additional capital of Rs 100 crore during 2009-10 and recruit around 2000 agents in the said fiscal. The additional capital will go into the company's expansion plan and meet the target of Rs 500 crore premium in 2009-10. In a press conference held in Chennai on March 6, 2009, M. Balachandran, the chairman of Star Union Dai-ichi Life Insurance said that the company has a definitive advantage over its competitors as it can tap into the 5500-strong branch network of its forming banks. The parent banks also give Star Union access to a large customer base of 40 million. "We have 21 life insurance players to compete with but we have two distinct advantages namely potential bank customers and secondly we don't have to incur the huge cost of an initial start-up in setting up the infrastructure," he said.

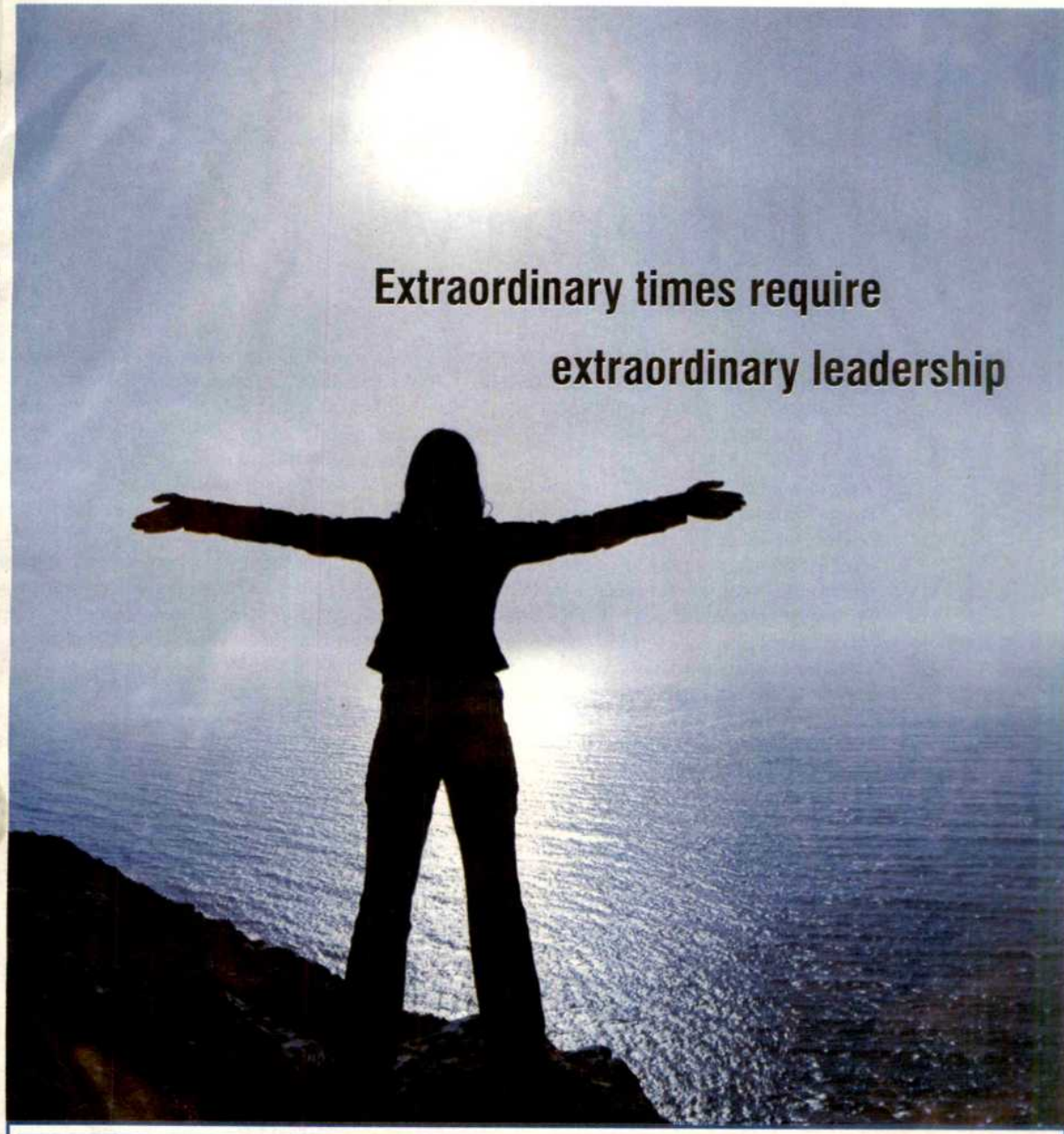
These are the obvious advantages that any public sector or cooperative bank gets when they foray into another field. These advantages are more prominent during the global slowdown as the faith of people has shifted from private banks to public sector and cooperative banks. As per the Securities and Exchange Board of India (SEBI), state-owned asset management companies have not felt the impact of the recession and this is proved by the fact that the ratio of assets

managed by these companies has gone up to reach 17.72 per cent in February 2009. From April 2008 to February 2009, the total assets under management of public sector mutual funds have increased by a little over 3 per cent, reaching 20.89 per cent in February 2009. This is significant when compared to the fall in the assets under management of the private sector from 82.28 per cent during April 2007–March 2008 to 79.11 per cent during April 2008–February 2009. This can be attributed to the fact that public sector units are more conservative in their approach towards portfolio management.

Even in terms of mobilisation of resources, mutual funds in the public sector have been able to increase them more compared to the private sector. Compared to the last financial year, the mobilisation went up 43 per cent in the public sector, and that of the private sector went up by a meagre 1.18 per cent. Even though the overall figures of assets under management and mobilisation of resources, may be higher for the private sector, it is obvious that the growth is only happening in the public sector.

Research shows that there has been a lot of growth in the infrastructure of the banking industry as a whole. Even in these times of economic recession, Indian banks have easily weathered the storm, with strong support from RBI. The regulatory authority has said that the industry remained fairly calm in the year 2008-09. This is proof of the fact India's banking industry, an important part of the economy, is strong to tide over tough times.

Promotion



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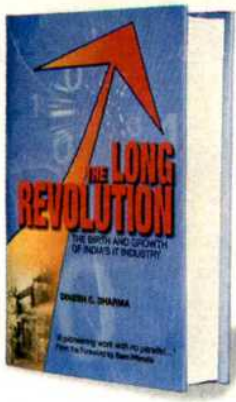


Exploring India's ITinerary

by nelson vinod moses

THE LONG REVOLUTION THE BIRTH AND GROWTH OF INDIA'S IT INDUSTRY; BY DINESH C. SHARMA; PUBLISHER: HARPERCOLLINS; PAGES: 488; PRICE: Rs 595

WRITING A BOOK ON INDIA'S IT INDUSTRY IS A BRAVE attempt considering the frequency with which it has been discussed and dissected by journalists, academics, analysts and consultants, and the obvious fatigue that has set in. Dinesh C. Sharma, writing as a New India Foundation fellow (fellowships are awarded to scholars and writers working on different aspects of the history of Independent India), treads on a road well-worn, but pulls away from most other writers because he attempts to chronicle the IT story from the origins to the present.

THE LONG REVOLUTION is a comprehensive catalogue of the country's struggles, many false starts, state-created inertia, gradual discovery and eventual emergence as a global IT giant. Sharma's narrative begins in the 1920s and '30s, when the use of IT in India started at about the same time as the rest of the world. This was thanks to P.C. Mahalanobis and Homi Jehangir Bhabha, who took the first few baby steps that has since exploded into a revolution. This was the pre-computer age of tabulating machines and unit recording machines. Mahalanobis and Bhabha used predecessors of computing machines to solve their own pain points — the former using it to analyse data from the National Sample Survey, and Bhabha for designing and running nuclear reactors. What began then is traced all the way through to the present.

Sharma's task is tough because the story of the Indian IT industry is synonymous with outsourcing to most casual observers. But the book goes beyond that, and focuses on the history of the use of IT in India, and also the software, hardware, semiconductor and design industries. The IT story is believed to have started after the liberalisation in 1991, when a progressive software policy created the perfect storm for the industry to carve out India as the premier IT outsourcing destination. The book dives below the tip of the 1991 iceberg to emerge with a lot of relatively unknown data and interesting anecdotes. Some of these stories from the pre-1991 era are either not well-known or are otherwise untold.

Sharma's eye for detail and painstaking research is obvious from his chronicling of the great Indian IT journey. Between the 1940s and the 1970s, he notes India's emphasis on indigenous technology and self-reliance — entry of global IT giants such as IBM in setting up manufacturing units and selling computers — and the role of institutions such as the Tata Institute of Fundamental Research and the Indian Statistical Institute in promoting computing.

The book works well as a reference, especially for those who want to know the facts, turning points and cull interesting anecdotes from the early days of Indian IT. For instance, key policy decisions are highlighted, such as the recommendations made by the Mantosh Sondhi panel in 1979, which for the first time spoke about giving special clearances for the import of computers against the obligation to export software. This led to the birth of the software industry.

Sharma also highlights the role of the state in pushing the IT agenda further, such as the 1984 computer policy, which reduced hardware prices, and then the 1990s when the government went all out with tax holidays, setting up software technology parks and marketing the industry externally.

While the book does a good job of recounting the pre-1990 era, it comes up short post that when one expects new stories tumbling out of the closet, insights and

BROWSING
D.P.S. Kohli
Chairman, Koutons Retail

I am reading The Monk Who Sold His Ferrari by ROBIN SHARMA at the moment. In it, Julian Mantle, a lawyer, is facing a spiritual crisis. So he embarks on a life-changing odyssey, and discovers how to live fully one day at a time. I enjoy reading fiction and management books — fiction refreshes my mind by helping me de-stress, whereas management helps me pick up new lessons about business. Also, I would recommend *The Alchemist* by Paulo Coelho.

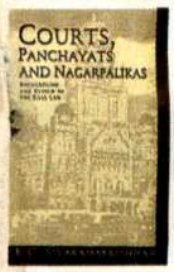
DINESH C. SHARMA has reported on science, technology and environment for the national and international media since 1984. He has won the National Award for 'Outstanding Effort in Science and Technology Communication in the Print Medium' in 2006 and the 'ACE Reporter's Award' from the European School of Oncology in 2003. Sharma is a postgraduate in journalism and communications from Osmania University, Hyderabad.

he behind-the-scene stories of how India disrupted the global IT industry and altered it. Sharma makes little or no mention of the clustering of the IT industry in a few cities such as Bangalore, Chennai and Hyderabad. In almost all tech industries, clustering is a phenomenon, such as Route 128 in Boston and Silicon Valley. He also does not tell us how Bangalore edged out Mumbai in becoming India's Silicon Valley.

Sharma overlooks the important role that state governments played when they allowed privatisation of engineering colleges, resulting in over 80 per cent of engineering graduates pouring out from them.

One of the biggest criticisms of the book is that it does not delve into the buses that India missed as it focused on software services and outsourcing opportunities. The vast training institutes run by the IT companies and how that led to the polishing of the poor quality of graduates turned out by engineering colleges finds only fleeting mention in the book.

SELECTION 1



Defining Democracy

COURTS, PANCHAYATS AND NAGARPALIKAS
BACKGROUND AND REVIEW OF THE CASE LAW;
BY K.C. SIVARAMAKRISHNAN;
PUBLISHER: ACADEMIC FOUNDATION; PAGES: 344; PRICE: Rs 995

NOT ALL BOOKS ARE EASY TO CONTEXTUALISE, AND this may well be the biggest reason why some do not get the readership they deserve. Dry as the title of this book may be, does it not take us back to the most intriguing of political questions: in practical terms, what does democracy mean in India?

Complex questions do not easily lend themselves to simple answers. But if we try to break the question down into its components, there is one question that this book tries to answer: why has grassroots democracy not taken hold in India? It does so because the author delves deeply into the manner in which the courts have applied self-governance laws over time. The problem is that the author answers the question without asking it. That makes for slow plodding reading with none of the literary flourish, philosophical musing and flights of imagination that this subject richly deserves.

At the same time, the author does not lack in detail. He comprehensively tabulates the case law under each topic he examines. Through this painstaking process, he arrives at the definitive legal position, which he then summarises at the end of the chapter. It is impressive stuff, written unimpressively.

What this means in the sum is that our grassroots democracy is still in its infancy. The conclusion seems inescapable that if we want a true democracy from the bottom up, we have to legislate much more closely, and do it better than expect courts to decide the myriad questions that remain to be decided, when they have the time to do it.

—Ranjeev C. Dubey

SELECTION 2

Home And Homecoming

FOR A LONG TIME AND INDEFINITE number of reasons, modern-day tales of aspiration that lead through an urban labyrinth of complexity have been centred exclusively on Mumbai. Over-hyped and undernourished, the city seems to exude a powerful and inviting lure. One that is fuelled by the "mad desire (Mumbai) arouses in you to lead an unlonely life" even as everyone is, in fact, battling loneliness — a sentiment that the protagonist in THE LOST FLAMINGOES OF BOMBAY (Penguin India) expresses.

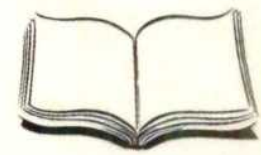
Karan Seth is a photographer with an impassioned goal to immortalise Mumbai through his pictures, and searches varying moods and moments to be captured on film. He strikes a friendship with Zaira, an actor, and gradually forms a unique companionship with Samar Arora, a renowned but reclusive pianist. His tryst with love draws him to Rhea Dalal, a middle-aged married woman with a captivating aura of sadness and longing.

A dramatic shift in the tone and politics of the novel takes place with the treacherous death of Zaira, a barely disguised replication of the Jessica Lal murder case. It is from here on that author Siddharth Dhanvant Shanghvi decides to register his wrathful indictment, lashing out at the many afflictions of society and, in doing so, presents an argument that does not carry the momentum he intends to deliver.

The most dominant feature of this migrant's tale is the use of the flamingo allegory. It is through this simile the author captures the unsettling experience of adapting to a metropolis.

—Alokita Datta

ALERT



26/11 MUMBAI ATTACKED
BY HARINDER BAWEJA
ROLI BOOKS
The recent stimulus for the rise of nationalism in India has most unfortunately been the terrorist attacks on Mumbai. Dissecting the tragedy, *26/11 Mumbai Attacked* brings forth a painstakingly researched compilation based on journalistic accounts, police enquiries and bleak eyewitness ordeals. Each of the essays analyses a particular aspect of the 'war on Mumbai', while all of them quote chilling statements and produce graphic depictions of hostage situations and rescue operations. The book is a complete chronicle of the infamous carnage.

Relentless Indictment

WEST BENGAL WAS INDIA'S MOST INDUSTRIALISED state, or close to it, at the time of independence; it was also one of the most prosperous. Now it is middling; many other states have overtaken it. In 1961, it had 718,000 industrial workers; their number went up marginally to 894,000 in 2005. Maharashtra was only slightly ahead in 1961, with 787,000 workers; in 2005 it had 1,258,000. Tamil Nadu increased its industrial employment from 286,000 to 1,236,000. The communists, who have ruled West Bengal for 32 years now, blame it on what happened before they came to power, especially Partition, and on the central government's step-motherly treatment. Their opponents blame it on the communists, who scared away industrialists. Whoever is right, West Bengal has lagged behind. How much so, is brought out in Indicus's latest study ('Transforming West Bengal: Changing the Agenda for an Agenda of Change').

SANJAY SAKARIA

West Bengal would do much better if it allowed private enterprise in many activities now monopolised by government for ideological reasons

It shows, for one thing, that West Bengal has not just lagged behind in industrial employment. It is backward even in variables in the government's control. For instance, it enrols 95 per cent of its children in schools, but 78 per cent drop out. It has too few schools, and too few teachers per child compared to most states. It also is a leader in the incidence of common diseases. It had more murders, rapes and kidnappings per head of population than Maharashtra and Tamil Nadu. While Tamil police recovered 72 per cent of stolen property in 2005, Bengali police recovered only 22 per cent. In 2008, 57 per cent of Bengalis lived in homes unconnected to a pucca road; the proportion was less than 10 per cent in Maharashtra and Tamil Nadu. And this is surprising since West Bengal gets far more rain — only 28 per cent of its people have access to safe drinking water, against over 70 per cent in Maharashtra and Tamil Nadu.

These and other figures given by Bibek Debroy and Laveesh Bhandari in the Indicus report will only confirm the prejudice commonly held against the West Bengal government; it is not difficult to hold anyway. More interestingly, however, they give the government a 30-point programme. In governance, their stress is not surprisingly on the law-and-order machinery — more police, more courts, and faster working. They want de volution of development expenditure. They want identity cards for all so that social expenditure is better targeted. They want land records cleaned up, integrated and computerised — which would also require legalisation of agricultural tenancy, just now illegal but rampant. They want all agricultural workers to be given small plots of 10-15 cents. They want farmers to be free to sell to anyone, directly or in markets.

They want the West Bengal government to implement the 74th amendment to the Constitution and pass on many functions to local bodies. Within local administration, they want abolition of government monopoly in many areas — road construction, running of passenger buses, urban water supply and sanitation. They want municipal taxes to be re-examined — generally raised — to make corporations financially viable. They want private entry into schooling as well; and standardised entrance examination to school teaching so that recruitment of teachers can be decentralised and it can be ensured that teachers have the knowledge to teach. They want industrial training institutes as well as employment exchanges to be privatised. They want the property registration system to be simplified, and micro-finance to be encouraged.

Their list of things to do is short, and none of them is revolutionary; most of them are things that are being done in other states as well. West Bengal can do so much better simply by using the experience that is lying around elsewhere in the country. Better performance should therefore be easy for West Bengal. But many of the recommendations require the use of private enterprise. They show to what extent other states have started using the private sector — and how much West Bengal has lagged behind because of ideological predilections.

This is why their recommendations may prove difficult to implement. Ideology is the Achilles' heel of the CPM government. The last two years have shown the deep fissures that developed in its leadership over the comparatively simpler idea of private industrial investment. The divisions would be a good deal deeper over the widespread private penetration recommended by Debroy and Bhandari into what have been the feeding troughs of the CPM cadres. They thus have set the stage for sanguine battles in party conferences. Classless struggle must go on.

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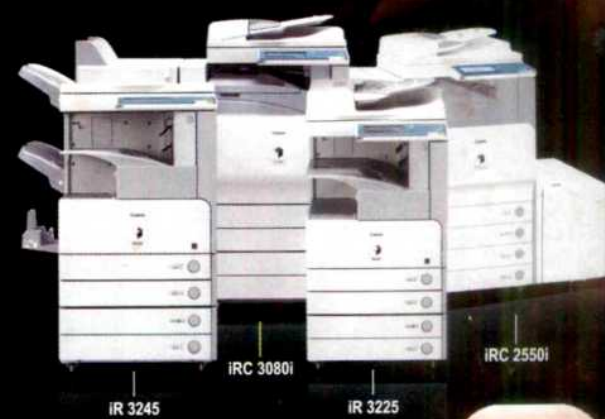

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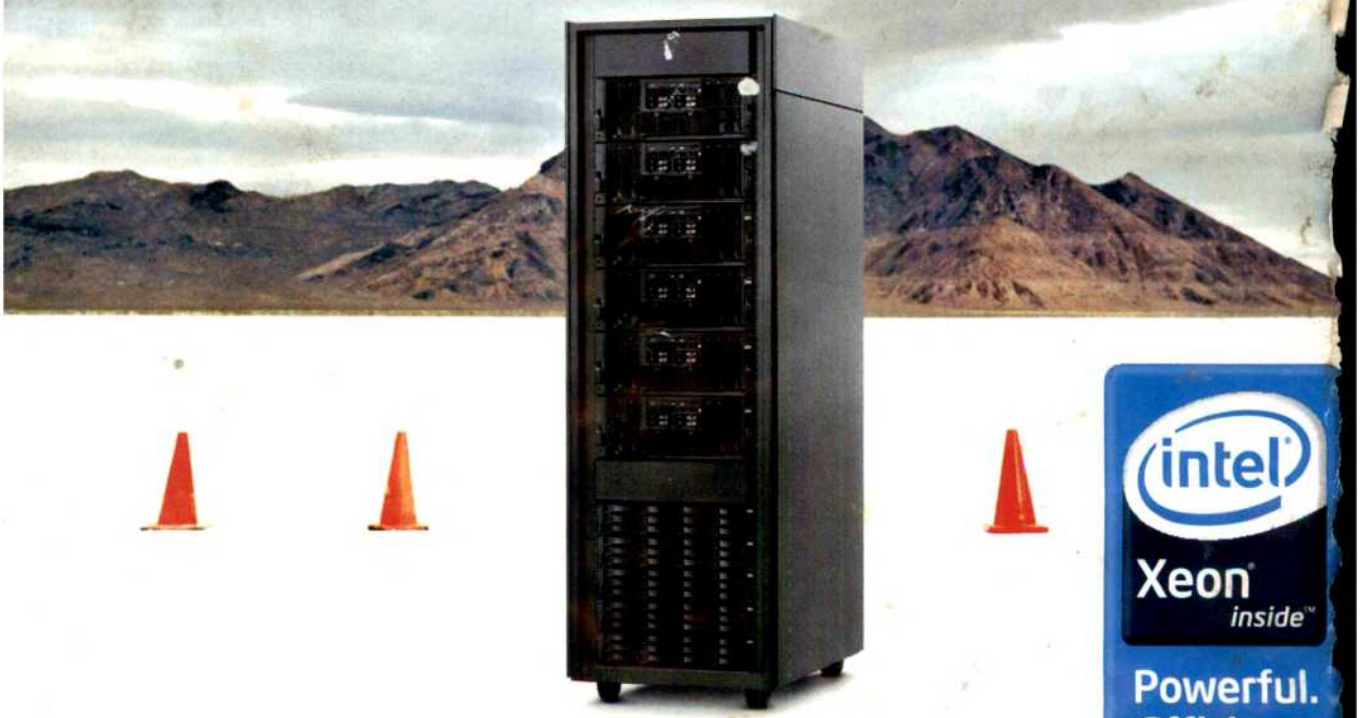

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